OXFORD HISTORICAL MONOGRAPHS

Business, Race, and Politics in British India

c.1850–1960

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CLARENDON PRESS · OXFORD
1999

Oxford University Press, Great Clarendon Street, Oxford OX2 6DP
Oxford New York
Athens Auckland Bangkok Bogota Buenos Aires Calcutta
Cape Town Chennai Dar es Salaam Delhi Florence Hong Kong Istanbul
Karachi Kuala Lumpur Madras Madrid Melbourne Mexico City
Nairobi Paris Singapore Taipei Tokyo Toronto Warsaw
and associated companies in
Berlin Ibadan

Oxford is a registered trade mark of Oxford University Press

Published in the United States
by Oxford University Press Inc., New York

First published 1999

British Library Cataloguing in Publication Data
Data available

Library of Congress Cataloging in Publication Data
Data applied for

ISBN 0–19–820711–5

1 3 5 7 9 10 8 6 4 2

Typeset by J&L Composition Ltd, Filey, North Yorkshire
Printed in Great Britain
on acid-free paper by
Biddles Ltd., Guildford & King's Lynn

ACKNOWLEDGEMENTS

I would like to thank my supervisors Tapan Raychauduri and Tom Tomlinson for their invaluable guidance and advice in the early stages of my research, and Judith Brown and David Washbrook who have kindly read various drafts. I owe a particular debt to my editor, Colin Matthew, whose advice and insight has improved this work enormously. I am also indebted to the help and support of my colleagues, Janet Howarth, John Robertson, George Garnett, and Ian Archer. The Faculty of Modern History, Oxford University, and the governing bodies of Christ Church, St Hilda's, and St Hugh's Colleges contributed generously to the costs of research, and the term's sabbatical leave granted by the governing body of St Hugh's College allowed me to complete my research in India. My research was greatly facilitated by the librarians and archivists of the India Office Library, London, the Nehru Memorial Library, Delhi, the Cambridge Centre for South Asian Studies, the Indian Institute Library, Oxford, and the County Clwyd Record Office. Finally, I would like to thank David Priestland for his patience and encouragement.

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ABBREVIATIONS

ASSOCHAM	Associated Chambers of Commerce of India and Ceylon
BAT	British American Tobacco
EA	European Association
EAIDA	European and Anglo-Indian Defence Association
EcHR	*Economic History Review*
EFI	Employers Federation of India
EHR	*English Historical Review*
FICCI	Federation of Indian Chambers of Commerce and Industry
GoI	Government of India
IBA	India–Burma Association
ICI	Imperial Chemicals Industries
ICS	Indian Civil Service
IESHR	*Indian Economic and Social History Review*
IIYB	*Indian Industries' Yearbook*
IJMA	Indian Jute Mill Association
IOL	India Office Library
IOLR	India Office Library and Records
JAS	*Journal of African Studies*
JICH	*Journal of Imperial and Commonwealth History*
JSC	Joint [Parliamentary] Select Committee on Indian Reforms
MAS	*Modern Asian Studies*
MSS OG	Ogilvy Gillanders Papers
RBI	Reserve Bank of India
TISCO	Tata Iron and Steel Company

GLOSSARY

Agarwal	Hindu trading caste of Northern India
Anglo-Indian	In the nineteenth century this term was used to refer to the British based in India; in the twentieth it tended to refer to those of mixed Indian and European descent
anna	One-sixteenth of a rupee
babu	Bengali clerk in business managed by Europeans
battar	Commission, discount
bhadralok	Literally 'gentlefolk'; used to refer to the Bengali middle classes
bania	A trader belonging to a Hindu or Jain trading caste
banian	Indian broker to a European trading firm
bhatia	A trading caste, originally from Cutch
boxwallah	Peddler; pejorative term used of businessmen
Brahman	The priestly order in the traditional *varna* hierarchy of Indian society
burra	Head; chief
Chettiar	The trading caste of Tamil Nadu
crore	Ten million
dastoori	Customary dues, bribes
futka	Literally 'bubble'; in the context of the jute trade, speculation in futures markets
Jain	Religion related to Hinduism
Kayasth	Hindu writer and administrative caste
khaddar, khadi	Hand-made cloth
Kshatriya	The warrior order in the *varna* hierarchy
lakh	One hundred thousand rupees
mahajan	Guild of merchants in Gujarat
Marwari	Hindu or *Jain*, belonging to one of the castes of Marwar in Rajasthan traditionally involved in trading
mofussil	The rural areas of a district; 'up-country'
munim	head clerk in a trading firm
Nagarseth	The prinicipal of the merchants in Ahmedabad
Oswal	A trading caste of Rajasthan and Central India
Parsi	Zoroastrian
Raj	British rule in India
rupee	Unit of Indian currency: before World War I it was generally valued at 1*s*. 4*d*., although it fluctuated between 1*s*. 2*d*. and 1*s*. 9*d*.; during the war it rose, reaching 2*s*. 9*d*., but then fell

	to 1*s*. 3*d*. in July 1921; during World War II it was generally valued at 1*s*. 6*d*.
sardar	Literally 'headman', jobber, or foreman in jute mills
swadeshi	Literally 'of one's country'; movement to encourage the consumption of goods made in India
swaraj	Self-rule, autonomy, or independence
varna	One of the four classical divisions of Hindu society
zamindar	Landholder, paying revenue to the government in Northern and Eastern India

FIGURES

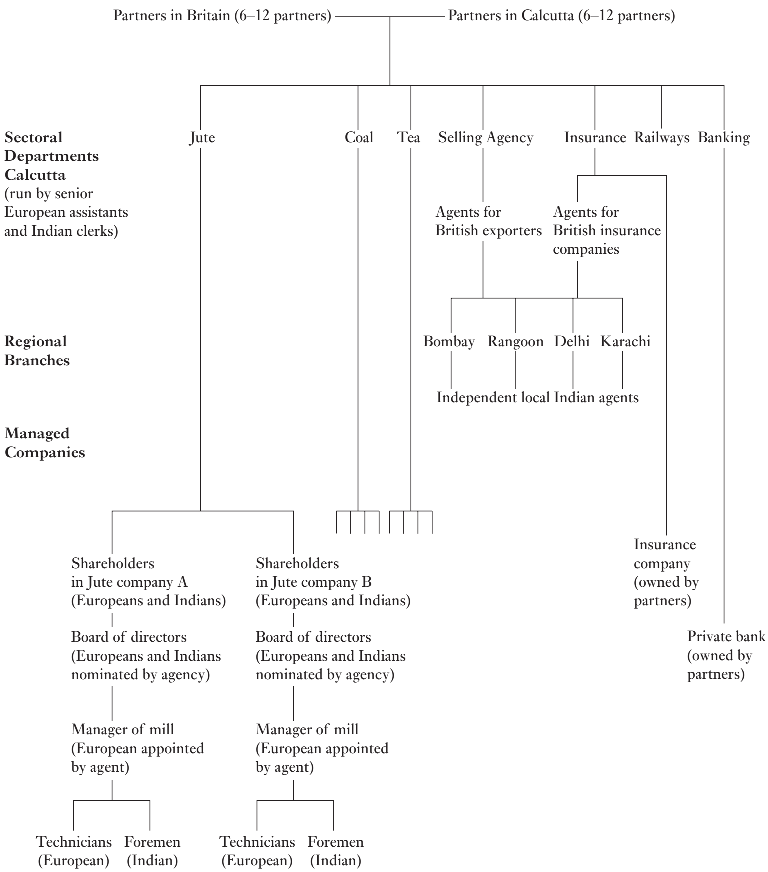


FIG. 1. The structure of a typical managing agency house in Calcutta

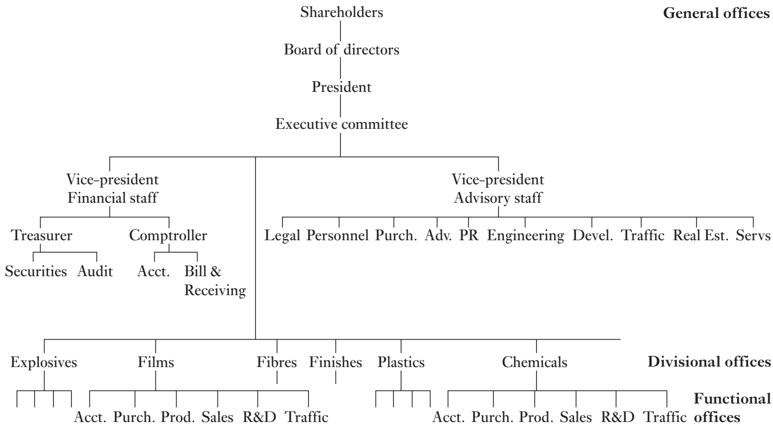


FIG. 2. The structure of a multidivisional manufacturing company
Source: A. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., 1977) 458.

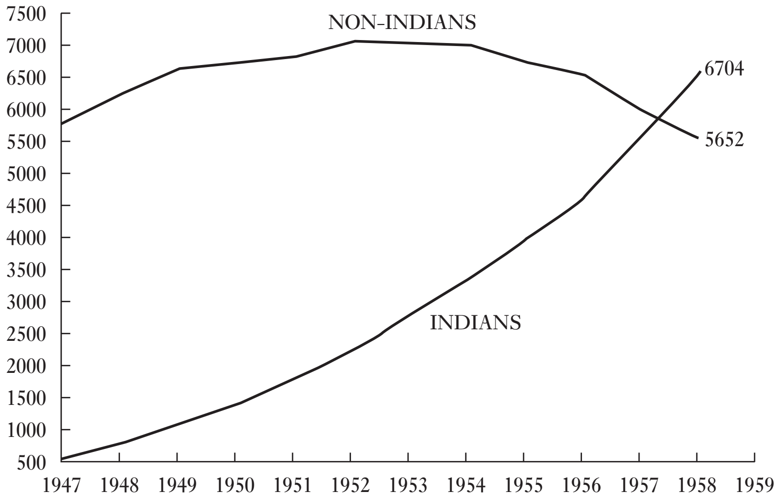


FIG. 3. Employment graph of Indians and non-Indians earning more than Rs 1,000 per month in 'foreign-controlled' concerns, 1947–1959
Source: The Papers of the India–Pakistan–Burma Association, 10LR.

Introduction

The relationship between enterprise and empire has long occupied a central place in studies of European imperialism. Since the formulation of Marxist and Hobsonian theories of imperial expansion at the beginning of this century, the role of business in the development of empire has continued to be the subject of controversy and interest.[1] While for Marxist commentators the expansion of European empires had mainly economic causes and the state acquired colonies at the behest of business interests, much recent work has been devoted to countering or qualifying this view: there is now a very large literature on particular business groups and imperial episodes arguing that the influence of businessmen, both at the periphery and in the metropolis, on political decision-making was not always strong, that businessmen's interests were diverse, and that their commitment to empire was by no means consistent. However, historians' concentration on this important debate has led them to view the role of business in empire in a relatively narrow way: they have been mainly interested in the influence of businessmen over officials' and politicians' decisions to expand, formalize, or abandon empire.[2] There has also been a tendency to assume that businessmen's behaviour is always motivated by the desire to pursue profit in the most rational way; for both Marxists and their critics,

[1] For an analysis of this historiography see A. Brewer, *Marxist Theories of Imperialism: A Critical Survey*, (London, 2nd edn., 1990); W. J. Mommsen, *Theories of Imperialism*, (London and New York, 1981).

[2] For studies of metropolitan business see L. E. Davis and R. A. Huttenback, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism* (Cambridge, 1986); C. M. Andrew, 'The French Colonialist Movement during the Third Republic: The Unofficial Mind of Imperialism', *TRHS* 26 (1976); C. M. Andrew and A. Kanya-Forstner, 'French Business and the French Colonialists', *HJ* 19 (1976), 981–1000; J. F. Laffey, 'Municipal Imperialism in France: The Lyon Chamber of Commerce, 1900–1914', *Proceedings of the American Philosophical Society*, 119 (1976), 235–48; M. Lynn, 'Bristol, West Africa and the Nineteenth Century Palm Oil Trade', *Historical Research*, 64 (1991), 359–74; W. G. Hynes, 'British Mercantile Attitudes towards Imperial Expansion', *HJ* 19 (1976), 969–79. On business on the periphery, see A. G. Hopkins, 'Imperial Business in Africa', pts. 1 and 2, *Journal of African History*, 17 (1976), 29–48, 267–90; D. C. M. Platt (ed.), *Business Imperialism 1840–1930: An Enquiry Based on British Experience in Latin America* (Oxford, 1977), introduction.

businessmen's attitudes to political and social arrangements are flexible and pragmatic, and they will simply support those which best serve their commercial interests.[3]

This study, however, will argue that while the role of business in the establishment of formal empire may have been exaggerated, expatriate business in some colonies had a much greater impact on the nature of social and political relationships within formal empire, and ultimately on the stability of empire itself, than has been recognized.[4] In a number of colonial cities, expatriate businessmen constituted a large and influential element within colonial society, even though they were sojourners rather than permanent settlers and usually returned to Europe after a series of postings. They were sometimes granted political representation in municipal government and later in provincial and central legislatures, and developed views on non-economic issues,

[3] Marxist explanations see imperialism as the outcome of European capitalists' pursuit of their economic interests. However, even influential critics of Marxist theories, such as R. Robinson, assume that business defends those political solutions which further its economic interests. So Robinson argues that 'the banker and merchant exploited empire for maximum profit' and their pursuit of these interests in particular circumstances helped to determine whether imperial relationships would be formal or informal. See R. Robinson, 'The Excentric Idea of Imperialism', in W. J. Mommsen and J. Osterhammal, *Imperialism and After* (London, 1986), 281–2. For other non-Marxist interpretations which take the same view, see A. Porter, *European Imperialism, 1860–1914* (Basingstoke, 1994), 43–4, 48; W. G. Hynes, *The Economics of Empire: Britain, Africa and New Imperialism, 1870–1895* (London, 1979); Hynes, 'British Mercantile Attitudes towards Imperial Expansion'; B. M. Ratcliffe, 'Commerce and Empire: Manchester Merchants and West Africa, 1873–1895', *JICH* 7 (1979), 293–320; K. J. Bade, 'Imperial Germany and West Africa: Colonial Movement, Business Interests and Bismarck's Colonial Policies', in S. Forster, W. J. Mommsen, and R. Robinson (eds.), *Bismarck, Europe and Africa: The Berlin Africa Conference, 1884–5 and the Onset of Partition* (Oxford, 1988); for business pragmatism in West Africa, C. Newbury, 'On the Margins of Empire: The Trade of Western Africa, 1875–1890', in Forster, Mommsen, and Robinson, *Bismarck, Europe and Africa*; R. P. T. Davenport Hines and G. Jones (eds.), *British Business in Asia Since 1870* (Cambridge, 1989); S. Chapman, *Merchant Enterprise in Britain from the Industrial Revolution until World War I* (Cambridge, 1992); Charles A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton, 1987); Platt (ed.), *Business Imperialism*. For a different view, see S. R. B. Smith, 'The Centenary of the London Chamber of Commerce: Its Origins and Early Policy', *London Journal*, 8 (1982), 156–70.

[4] Some social histories of colonial societies have been published recently, but they do not examine the position of business in any detail. See, for instance, V. Bickford-Smith, *Ethnic Pride and Racial Prejudice in Victorian Cape Town: Group Identity and Social Practice, 1875–1902* (Cambridge, 1995), chs. 1, 4; D. Prochaska, *Making Algeria French: Colonialism in Bone, 1870–1920* (Cambridge, 1990), chs. 3, 4, 6; J. Butcher, *The British in Malaya 1880–1941: A Social History of a European Community in Colonial Southeast Asia* (Kuala Lumpur, 1979), chs. 3, 6; R. Bickers, 'Changing British Attitudes to China and the Chinese, 1928–31', Ph.D. thesis, University of London, 1992, ch. 5.

including questions of race and imperial governance, which the imperial state was often forced to take into account when formulating its political strategy.[5] Businessmen also had regular contact with local populations as employers, partners, or competitors, and played an important role in the development of the relationship between Europeans and indigenous societies. The integration of expatriate businessmen into colonial society did not only affect the nature of imperial rule; it will also be argued that their commitment to the mores and values of colonial society influenced the behaviour of businessmen themselves and it certainly cannot be assumed that purely commercial interests always had priority.[6] These businessmen, therefore, should not only be studied as a commercial interest group, concerned with imperial policy only in so far as it affected their business interests. The history of business in empire must be approached broadly, by examining the interrelationship between the commercial, political, and social life of businessmen.[7]

This study will explore the relationship between enterprise and empire through an investigation of an important but neglected imperial business group, the British managing agency houses of India.[8] These firms were active in several Indian cities, but they were concentrated in Calcutta. They had risen to prominence after the Indian Mutiny, although some of them could trace their origins to the independent merchant enterprises that had displaced the East India Company in the eighteenth and early nineteenth centuries. By 1880 these firms had

[5] For the political role of business in colonial societies, see Butcher, *British in Malaya*, ch. 6; Bickford-Smith, *Ethnic Pride*, ch. 3; I. Schoffer, 'Dutch "Expansion" and Indonesian Reactions: Some Dilemmas of Modern Colonial Rule (1900–1942)', in H. L. Wesseling (ed.), *Expansion and Reaction: Essays on European Expansion and Reaction in Asia and Africa* (Leiden, 1978), 78–99.

[6] Very few of the histories of individual businesses or groups of businesses explore these issues. Typical are Chapman, *Merchant Enterprise in Britain*; S. Jones, *Two Centuries of Overseas Trading: The Origins and Growth of the Inchcape Group* (Basingstoke, 1986).

[7] For an attempt to relate the political and economic behaviour of metropolitan business of empire to the values of businessmen, see Cain and Hopkins's use of the concept of 'gentlemanly capitalism' in P. J. Cain and A. G. Hopkins, *British Imperialism: Innovation and Expansion, 1688–1914* (Harlow, 1993), 3–52. However, this idea has been heavily criticized. See M. Daunton, 'Gentlemanly Capitalism and British Industry, 1820–1914', *Past and Present*, 122 (1989), 119–58; W. D. Rubinstein, *Capitalism, Culture & Decline in Britain, 1750–1990* (London, 1994), chs. 2, 3.

[8] The following include brief discussions of the managing agency system: B. R. Tomlinson, 'Colonial Firms and the Decline of Colonialism in Eastern India, 1914–1947', *MAS* 15: 3 (1981), 455–86; S. Chapman, 'British-Based Investment Groups before 1914', *EcHR* 2nd ser. 38 (1985), 230–51. The more popular book, S. Jones, *Merchants of the Raj: British Managing Agency Houses in Calcutta, Yesterday and Today* (Basingstoke, 1992), contains some useful interview material.

secured control over a wide range of financial and commercial interests and were also industrial pioneers, particularly in eastern India, where they dominated much of the modern economy: in 1915 almost half of the total employment in Indian industry was provided by these firms and it has been estimated that they controlled about 75 per cent of industrial capital in India. They were also central to the trade between Britain and India and acted as the agents of British financial and commercial interests in the region.[9] By the late nineteenth century there were about sixty significant managing agency houses, of which a dozen had capital assets of between £100,000 and £2 million. Most British private direct investment in India in the colonial period was represented by the managing agencies, and by 1914 they controlled capital of over £200 million in India.[10]

These enterprises were also a dominant group in the colonial community. The élite within the firms, the partners and assistants, may not have comprised a large group, only numbering between 1,000–1,500 men at any one time, but in the inter-war period they constituted a community of equivalent size and status to the Indian Civil Service (ICS). They also employed a large number of other Europeans and exercised a decisive influence over non-official political opinion and activity, effectively controlling the substantial European political representation in the constitutional assemblies of 1919 and 1935. These businessmen inevitably had an influence on the development of relations between the British and Indian society: they were the employers of much of the industrial working class and of a large Indian clerical workforce, and had contacts with the increasingly successful and politically active Indian entrepreneurial groups which emerged after the First World War.

During the inter-war period expatriate business was confronted with profound changes in its economic and political environment. With the demise of the international open economy and the consequent stagnation of their traditional areas of business after the First World War, it

[9] They were particularly dominant in the jute and coal industries; see *Indian Industrial Commission Evidence, Volume III*, Cmd. 234 of 1919, p. 47. For the size and scope of the managing agency houses see Chapter 1; A. K. Bagchi, *Private Investment in India 1900–1939*, (Cambridge, 1972), 174–81; Tomlinson, 'Colonial Firms'.

[10] There were also a few 'free-standing' British joint-stock companies, such as Jessops Engineering Co.; from the late 1920s investment by British multinationals began, although it did not become significant until the 1940s. On the multinationals see B. R. Tomlinson, 'Foreign Private Investment in India, 1920–1950', *MAS* 12: 4 (1978), 655–77. See also Chapter 8; Table 2.

was increasingly in the interests of these firms to create closer links with the Indian market and diversify into more modern sectors. The political circumstances of the period also demanded a new strategy: the emergence of mass nationalism, and the Government of India's efforts to conciliate it, suggested that expatriate business would need to establish a new collaborative partnership with Indians. Furthermore, the Government of India's 'new industrial policy' brought with it greater state intervention, which in turn required business to organize itself more effectively in order to promote its interests.[11]

Yet the partners of the managing agency houses did not respond to change in a way most likely to secure their economic and political interests and they showed themselves to be neither flexible nor rational. They remained committed to their traditional, now ailing, areas of activity and made few efforts to establish new contacts in the Indian economy or to diversify into more profitable sectors; they were resolutely opposed to any concessions to nationalist opinion and resisted the racial integration of their firms; they refused to co-operate with the state's new economic policies and to organize themselves politically in order to exploit the state's new interest in industrial development. Their relations with the Government of India therefore deteriorated at a time when the state was vital for the economic prosperity of British business and for the protection of its position against nationalist threats.

The records of these firms suggest that the partners' behaviour was less influenced by their desire to increase profits than by a very powerful ethos which affected attitudes to the conduct of business, imperial governance, and racial and social hierarchies. Their central concern seems to have been to preserve their control over their businesses, to increase their status within colonial society, and to maintain their independence from external interference, whether from the state, Indians, or technical specialists within the firm. The dominance of these values among the partners helps to explain why they increasingly isolated themselves from potentially profitable links with Indian business and the state. It also accounts for the partners' refusal to reform the hierarchical structure of the firms and promote the status

[11] For this policy, which involved a greater commitment by the state to the development of the Indian economy, see Chapter 6; C. Dewey, 'The Government of India's "New Industrial Policy", 1900–1925: Formation and Failure', in K. N. Chaudhuri and C. J. Dewey (eds.), *Economy and Society* (New Delhi, 1978), 215–57; B. R. Tomlinson, *The Political Economy of the Raj, 1914–1947* (London, 1979), 57–64.

of technical specialists, reforms which were essential if these businesses were to diversify into more technologically sophisticated industries.

This concern with autonomy and control was characteristic of much domestic British business in this period; the longevity of the small family firm is often cited as evidence of this.[12] Similarly, a suspicion of state intervention in the economy and hostility to collective political action, and particularly to any form of corporatism, can also be found among businessmen in Britain.[13] Yet while comparisons with Britain are illuminating, expatriate businessmen were even more determined in their resistance to loss of control to outsiders, and any explanation of these businessmen's behaviour must take into account the peculiar conditions of colonial India. It was in part the nature of the managing agency system which encouraged them to act as they did: this system had traditionally allowed partners in a private firm to control a large number of joint-stock companies, protected by legal contract from interference by their shareholders.[14] Company law would not have permitted such an arrangement in Britain, where partnership firms tended to be small and were prohibited from controlling joint-stock companies.[15] The partners

[12] W. Lazonick, *Business Organisation and the Myth of the Market Economy*, (Cambridge, 1991), 23–7, 48; A. D. Chandler, *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass, 1990), 235–6, 240–2, 285–6, 291–4; M. B. Rose, 'The Family Firm in British Business, 1780–1914', in M. W. Kirby and M. B. Rose (eds.), *Business Enterprise in Modern Britain from the Eighteenth to the Twentieth Century* (London, 1994), 61–88.

[13] For the resistance of British business to corporatism, see S. Newton and D. Porter, *Modernization Frustrated: The Politics of Industrial Decline in Britain Since 1900* (London, 1988), ch. 3; S. Tolliday, 'Tariff and Steel, 1916–34: The Politics of Industrial Decline', in J. Turner (ed.), *Businessmen and Politics* (London, 1984), 50–76; L. P. Carpenter, 'Corporatism in Britain, 1930–45', *Journal of Contemporary History*, 11 (1976), 3–25; D. Ritschel, 'A Corporatist Economy in Britain? Capitalist Planning for Industrial Self-Government in the 1930s', *EHR* (Jan. 1991). For the failure of British business to organize itself politically, see Cain and Hopkins, *British Imperialism*, 209–21; A. J. Marrison, 'Businessmen, Industries and Tariff Reform in Great Britain 1903–1930', in R. Davenport-Hines, *Business in the Age of Depression and War* (London, 1992), 91–118; Newton and Porter, *Modernization Frustrated*, introduction; S. R. B. Smith, 'British Nationalism, Imperialism and the City of London', Ph.D. thesis, University of London, 1985; D. Nicholls, 'Fractions of Capital: The Aristocracy, the City and Industry in the Development of Modern British Capitalism', *Social History*, 13 (1988); J. Turner, 'The Politics of "Organized Business" in the First World War', in Turner (ed.), *Businessmen and Politics*, 33–50.

[14] The managing agency, a private partnership firm, secured the right to manage several joint-stock companies by legal agreement rather than by ownership of shares. Hence it did not have to satisfy shareholders. For details of the system, see Chapters 1 and 2 below.

[15] For the innovative nature of the managing agency system, see Chapter 2; Chapman, *Merchant Enterprise*, 249–54.

of the managing agencies were therefore accustomed to high levels of autonomy and were determined to maintain these arrangements in the face of increasing criticism from Indian shareholders and government officials.

They justified this system by developing a coherent set of ideas about the proper conduct of business and the appropriate character of the businessman: the partner of the managing agency firm was to be a buccaneering 'merchant adventurer' who would respond quickly to new opportunities; good judgement, unimpeded by excessive technical knowledge, was seen as vital for success. Shareholders would thus only constrain the ability of the partner to exercise his judgement and specialists lacked the necessary entrepreneurial instincts.[16] It was therefore essential that only the partners, who had the appropriate 'character' for business, should have unconstrained authority in the firm. By 'character', as will be seen in Chapter 1, the managing agents tended to mean the leadership qualities, sporting interests, and personality associated with a public school education.[17] This set of attitudes to business is understandable in the context of the economic and commercial conditions in India in the middle of the nineteenth century: business opportunities in this period lay in areas, such as commodity trade and simple manufacturing, where rapid decision-making by partners, without the need for consultation with technical experts, was desirable. However, it became less appropriate as the managing agencies diversified into more complex industrial enterprise.

The importance of racial tension in colonial India also helps to explain the behaviour of expatriate businessmen. Just as the partners insisted that their European recruits should be drawn from a narrow social and educational background and that all other employees should be strictly subordinate to them, so they resisted any pressures to submit to greater racial integration or 'indianization'.[18] It was the issue of race

[16] In Britain, by contrast, the individualism of mid-nineteenth-century businessmen was increasingly mitigated and challenged by other values, such as paternalism. See, for instance, T. Koditschek, *Class Formation and Urban Industrial Society: Bradford, 1750–1850* (Cambridge, 1990), introduction; R. J. Morris, *Class, Sect and Party: The Making of the British Middle Class: Leeds, 1820–50* (Manchester, 1990), conclusion; R. Trainor, 'The Gentrification of Victorian and Edwardian Industrialists', in A. Beier, D. Cannadine, and L. Rosenheim (eds.), *The First Modern Society* (Cambridge, 1989), 181; Rose, '*The Family Firm*', 75–82.

[17] See below, Chapter 1. See also S. Collini, *Public Moralists: Political Thought and Intellectual Life in Britain, 1850–1930* (Oxford, 1993), 91–118; J. A. Mangan (ed.), *Making Imperial Mentalities: Socialisation and British Imperialism* (Manchester, 1990), introduction.

[18] See below, Chapter 5.

and power-sharing, in both political and commercial spheres, that led to many of the conflicts between expatriate enterprise and the colonial state. While the state became increasingly anxious to conciliate nationalist opinion on these issues, businessmen remained staunchly opposed to the relaxation of racial distinction before 1914 and to the devolution of power to Indians during the inter-war period. Much of the political activity of business in the 1920s and 1930s was devoted to preserving the racial exclusivity of the firms and the racial privileges of Europeans in India.

This striking division between the attitudes of business and those of the state on the issue of race is evident in other colonial societies, but has not been analysed or explained.[19] The literature on the question of race is not particularly helpful in illuminating the causes of this difference. Most authors either treat European attitudes to race as homogeneous and undifferentiated, or concentrate more narrowly on the intellectual history of racial ideas without showing how they were interpreted by different social groups or in particular colonial contexts.[20] One plausible explanation is that the divergent interests of business and the state produced different attitudes to race: the imperial state needed to appease nationalist sentiment in order to secure collaboration and political stability, while businessmen, like settlers, who had a more personal economic stake in the colony and felt more threatened by political reform, feared any dilution of their privileges.[21]

[19] Butcher, *The British in Malaya*, 3, 6; Bickford-Smith, *Ethnic Pride and Racial Prejudice in Victorian Cape Town*, chs. 1, 4; Schoffer, 'Dutch "Expansion" and Indonesian Reactions', 91–3. For similar divergences between British business and the state after World War II, see N. J. White, 'Government and Business Divided: Malaya, 1945–57', *JICH* 22: 2 (1995), 251–74. R. Bickers in his study of Shanghai has also discussed these issues. See Bickers, '*Changing British Attitudes*', ch. 5.

[20] For recent examples of sophisticated social and cultural approaches to colonial racism which, nevertheless, fail to draw distinctions between the content of 'racist' ideas expressed by different groups see M. Sinha, *Colonial Masculinity: The 'Manly Englishman' and the 'Effeminate Bengali' in the Late Nineteenth Century* (Manchester, 1995); K. Ballhatchet, *Race, Sex and Class Under the Raj: Imperial Attitudes and Policies and their Critics, 1793–1905* (London, 1980); C. Bolt, *Victorian Attitudes to Race* (London, 1971); R. Ross (ed.), *Racism and Colonialism* (The Hague, 1982) (see chapters by V. A. February, E. Van Den Boogart, and R. T. Smith). For the intellectual history of racist ideas, see T. Metcalf, *Imperial Ideologies* (Cambridge, 1995), chs 3, 4; Ross, *Racism and Colonialism*, chs. 1, 2, 4, 5. For an attempt to link intellectual and social approaches to racism, see Bickford-Smith, *Ethnic Pride*, chs. 1, 4; J. Bremen (ed.), *Imperial Monkey Business: Racial Supremacy in Social Darwinist Theory and Colonial Practice* (Leiden, 1990).

[21] I. Schoffer seems to be putting forward this argument in Schoffer, '*Dutch "Expansion" and Indonesian Reactions*', as does R. W. Johnson, 'French Imperialism in Guinea', in R. Owen and B. Sutcliffe (eds.), *Studies in the Theory of Imperialism* (London, 1972), 230–46.

However, the interests of British businessmen were very different to those of settlers in Africa: they were more mobile than settlers and less economically insecure. Also, rather than relying on the state for protection their businesses depended on close commercial relations with Indians, a fact of which they themselves were well aware.[22] As Indians gained political power in the inter-war period, the racial exclusivity of the British became extremely damaging to their economic and political interests.

A more compelling explanation for the peculiar isolation of British business groups suggests that it was the lack of an established legal framework and shared commercial and financial institutions which inhibited the development of closer relations with Indian businessmen. It is now commonly recognized that where these institutions are weak, personal relationships and trust become particularly important for businessmen.[23] In this context, expatriate businessmen's resistance to collaboration with their Indian counterparts and their suspicion of the growing commercial and political power of Indians becomes more explicable, even though it was ultimately self-defeating. Expatriate businessmen's difficulty in understanding Indian trading conventions and methods is clearly an important factor explaining their behaviour, and these issues will be examined in Chapters 4 and 5. However, as will be seen in Chapter 8, some businessmen were more able than others to overcome these obstacles; representatives of multinational enterprise in the inter-war period, in particular, felt themselves able to adopt a less exclusive attitude to indigenous business and a more liberal approach to politics.

See also J. Lonsdale and B. Bermans, 'Coping with the Contradictions: The Development of the Colonial State in Kenya, 1895–1914', *Journal of African History*, 20 (1979); C. J. D. Duder, 'The Settler Response to the Indian Crisis of 1923 in Kenya: Brigadier General Philip Wheatley and Direct Action', *Journal of Imperial and Commonwealth History*, 17 (1989); R. Robinson, 'The Moral Disarmament of African Empire', in N. Hillmer and P. Wigley (eds.), *The First British Commonwealth* (London, 1980). On the politics of the settlers, see M Kahler, *Decolonization in Britain and France*, (Princeton, 1984), 316–35.

[22] For commercial relations with Indians, see below, Chapters 4 and 5.

[23] These arguments are derived from the ideas of institutionalist economic historians. See, for instance, Oliver E. Williamson and W. O. Ouchi, 'The Market and Hierarchies Programme of Research: Origins, Implications, Prospects', in A. Van der Ven and W. Joyce (eds.), *Perspectives on Organization, Design and Behaviour* (New York, 1981). For an application of these views to the Indian case, see M. D. Morris, 'South Asian Entrepreneurship and the Rashomon Effect, 1889–1947', *Explorations in Economic History*, 16 (1979), 341–61.

It will be suggested, therefore, that an understanding of these businesses' objective economic interests and the institutional environment in which they operated is not sufficient to explain their behaviour. Rather, we must take account of both the peculiarities of these firms and the colonial societies of which they were such an important part. The values of the managing agency firms, which emphasized the importance of firm hierarchy and the 'character' of their élite, were reinforced and complemented by the state's new interest in establishing racial distinctions and social hierarchies in Indian cities in the quarter-century following the Indian Mutiny. Initially both officials and businessmen seem to have been equally committed to these hierarchies, which were designed to enhance the prestige of imperial rule, but from the early twentieth century there was an increasing divergence between the views of the British state and expatriate business as to which qualities should be embodied in the hierarchies of colonial society. While the ICS increasingly embraced a professional ethic in its approach to political reform and the race question, arguing that intellectual and educational attainments should determine access to the élite, the partners of the agency houses continued to adhere to an ethos based on the superiority of 'character' over educational attainment. In part, this may be because they considered that high status within colonial society was important if they were to maintain the respect of creditors, business partners, and Indian employees. Therefore, while the state could justify the promotion of Indians on the basis of their intellectual and educational achievements, the managing agents were less prepared to employ or establish close contacts with educated Indians who were well trained but did not have a suitable 'character'. A similar divergence between state and business attitudes has been identified in Britain, although expatriate businessmen seem to have been even more resistant to professional values than their counterparts in Britain.[24] This suggests that while the conservative views of businessmen towards race must be seen in the context of both a more general resistance to professionalization and bureaucratic systems of recruitment and decision-making, it is also necessary to take account of the specifically colonial environment and the ideas which were used to legitimize imperial rule in India.[25]

Differences over race and indianization were important in precipi-

[24] Perkin argues that there was some professionalization of British management within some of the more modern multidivisional firms that emerged in Britain after World War I. H. Perkin, *The Rise of Professional Society: England Since 1880* (London, 1990), 294 f.

[25] Ibid. 299–301.

tating the marked deterioration of relations between business and the colonial state between the two world wars, but another reason for increasing conflict was their differing approach to the involvement of the state in the economy and of business in politics.[26] As will be argued in Chapters 6 and 7, the Government of India went much further than the British state in seeking to establish a semi-corporatist system through which it hoped to enlist business groups, both British and Indian, as allies in its new strategy to recast the collaborative basis for the *Raj* and to stimulate economic development. Expatriate business was hostile to even the weakest form of corporatism and an important opportunity to increase its influence was lost.

This study, therefore, will argue that imperial businessmen's behaviour cannot be explained solely in terms of their business objectives, and that businessmen have to be studied in the same way that historians approach the history of other social groups, investigating the social, cultural, as well as economic context in which they operate.[27] The structure of the managing agencies, together with a powerful set of attitudes to social hierarchies, race, and the conduct of business, all contributed to the self-defeating strategy adopted by the agency houses. The importance of the culture and traditions of businessmen is particularly evident when the experience of the managing agencies is compared with that of multinational enterprise in India. As will be seen, the multinationals, with their professional and bureaucratic organization and their looser connections with the institutions of colonial societies were better able to accommodate themselves to changing circumstances even though they were operating in the same economic and political environment as the managing agencies.[28]

This study also suggests that we need to analyse the internal dynamics of colonial societies, and particularly the way in which they reflect metropolitan values and conceptions of status in the peculiar context of the periphery, if we are fully to understand the construction

[26] This interpretation contrasts with that of Ray and Bagchi, who see a close relationship between the managing agencies and the Government of India: R. K. Ray, *Industrialization in India* (New Delhi, 1979), 240–62; Bagchi, *Private Investment in India*, 165–70.

[27] Some studies of businessmen in mid-nineteenth-century Britain have begun to approach business in this way. See Koditschek, *Class Formation*, introduction; R. G. Wilson, *Gentlemen Merchants: The Merchant Community in Leeds, 1700–1830* (Manchester, 1971); Morris, *Class, Sect and Party*, conclusion; A. Howe, *The Cotton Masters, 1830–1860* (Oxford, 1984); S. Nenadic, 'Businessmen, the Urban Middle Classes, and the "Dominance" of Manufacturers in Nineteenth Century Britain', *EcHR* 44, (1991), 66–85.

[28] See Chapter 8, below.

and stability of imperial political and social systems.[29] The behaviour of British business in India certainly helps to explain some of the difficulties which the imperial authorities had in establishing enduring collaborative relationships. Non-official groups in India, of which business groups were the most vocal, adhered to a conception of empire which contrasted markedly with the Government of India's reformism between the wars. The state, therefore, found that its moderately conciliatory approach to nationalism was regularly undermined by British business interests within India. It is a striking paradox that 'imperialism' was most stridently advocated not by imperial officials themselves but by those British businessmen who would have had most to gain from a more graceful retreat.

This study is based on a variety of business, official, literary, and press sources. It makes extensive use of the company records of seven firms (Binny and Company, Bird Heilgers and Company, Thomas Duff and Company, James Finlay and Company, Gillanders, Arbuthnot and Company, Jardine, Skinner and Company, and Mackinnon, Mackenzie and Company). The partners' correspondence is particularly useful because partners had to communicate regularly between Britain and India, although they do not survive for each year. This evidence is far fuller and reliable than the quantitative evidence in company accounts.[30] Few of these archives contain accounts, although Gillanders's archive does have a full set of profit and loss accounts, details of which I include in Table 8. However, these private accounts are not easy to interpret because allowances for depreciation were inadequate, while published accounts are highly unreliable as profit figures were manipulated with the use of hidden reserves.[31]

The study also makes use of the interviews conducted with the

[29] This has also been argued by Chris Bayly, in 'Returning the British to South Asian History: The Limits of Colonial Hegemony', *South Asia*, 17 (1994), 1–25. A number of scholars have become interested in the structure and culture of colonial societies. See Butcher, *The British in Malaya*; Bickers, '*Changing British Attitudes*'; A. Stoler, 'Rethinking Colonial Categories: European Communities in Sumatra and the Boundaries of Rule', *Comparative Studies in Society and History*, 31, (1989), 134–61; N. Clifford, *Spoilt Children of Empire: Westerners Shanghai and the Chinese Revolution of the 1920s* (Middleton, Vt., 1991).

[30] For other work which has used similar sources, see S. D. Chapman's article on Jardine Skinner in the nineteenth century, 'The Agency Houses: British Mercantile Enterprise in the Far East, c. 1780–1920', *Textile History*, 19: 2, (1988), 239–54.

[31] For this point, see S. Jones, *Trade and Shipping: Lord Inchcape* (Manchester, 1989), 121–8, appendix 1.

partners of a large number of agency houses and multinationals deposited in the India Office Library, and other interviews conducted by myself. It uses the records of chambers of commerce, the European Association, and the Calcutta Corporation, and information gathered from company histories, memoirs, and the press. It also uses material from the archives of prominent Indian businessmen who had contacts with the managing agency houses, including Sir Homi Mody and Sir Purshottamdas Thakurdas. Government of India, India Office, and Conservative Party papers have also been consulted.

PART I

The Origins of the Managing Agency Houses, 1860–1919

1
The Managing Agency Houses in the Era of High Imperialism, 1860–1919

> The head of a great firm dealing with foreign countries needs to be a statesman, an economist, and a financier, as well as a merchant. He must have the power of taking a bird's-eye view of the whole situation; like the general of an army and like all great commanders, he must be able to discern talent, and promote it to the highest position. A first-class merchant does not burden his mind with a multitude of details, and is always seemingly at leisure, while intent upon great issues. The old British merchant as I remember him before the days of syndicates and limited liability, was often a truly great man, honourable, far-sighted, enterprising, yet withal prudent and cautious; simple in his life, and temperate in all things. The great fabric of the British Empire was built on these solid foundations.
>
> Samuel Smith, 1902[1]

> I know hardly anyone who looks upon business (out here at any rate) as an end in itself. Luxury, ease or other work requiring private means seem to me to be the ideals in front of most businessmen who I know. The man to whom business is all in all, food and drink, is the Marwari, not the ordinary European merchant.
>
> William Wickham, 1906[2]

The Emergence of the Colonial Economy

In the century between 1813, when the East India Company's monopoly of Indian trade was abolished, and the outbreak of the First World War, the nature of the world economy changed radically. The decline of

[1] Samuel Smith, *My Life's Work* (London, 1902), 36. Samuel Smith was a partner in the managing agency house of James Finlay and Co., and later a Liberal MP.
[2] William G. Wickham to H. N. Gladstone, 17 Oct. 1906, MSS OG file 2592.

mercantilism was accelerated by the emergence of a system based increasingly on free trade as more of the developing world was incorporated into an international trading system. With the ending of the Napoleonic Wars, British trade was reoriented from the old Atlantic economy and towards greater involvement with the Far East.[3] India was to become central to this new pattern of trade.

Britain's economic relationship with India evolved through several phases in the course of the century. Between the 1790s and the mid-1830s British trade with India and within India was largely confined to a few commodities, of which the most important were indigo and opium. From the 1830s Britain began to make headway in Indian import markets as Scottish and Lancashire merchants and manufacturers made a concerted effort to penetrate the Indian interior.[4] The outbreak of the American Civil War marked another stage in the development of the relationship, as Indian raw cotton became an essential substitute for American cotton. By the 1840s British private enterprise in India had become involved in tea plantations and a number of small industrial concerns in Bengal, but until the 1850s the importance of India to the British economy was still limited to a relatively modest mutual commodity trade.[5]

However, the opening of the Suez Canal and the coming of the steamship and the telegraph in the mid-nineteenth century presented a number of new opportunities for businessmen trading in the Far East.[6] Similarly, improvements in transport and communications within India increased the demand for imports within the subcontinent, while the opening of new ports in China made more of her interior accessible to Indian textile and other exports.[7]

Political change following the Indian Mutiny of 1857 also brought new economic opportunities. The creation of a formal colonial

[3] S. Chapman, *Merchant Enterprise in Britain from the Industrial Revolution to World War I* (Cambridge, 1992), 82–5; P. J. Cain and A. G. Hopkins, *British Imperialism: Innovation and Expansion, 1688–1914*, (Harlow, 1993), 320–7; C. A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton, 1987), 51–3.

[4] Chapman, *Merchant Enterprise*, p. 112; for a more detailed account see D. A. Farnie, *The English Cotton Industry and the World Market, 1815–1896* (Oxford, 1979), ch. 3.

[5] B. R. Tomlinson, *The Economy of Modern India, 1860–1970* (Cambridge, 1993), 97–8.

[6] Jones, *International Business*, 103–4.

[7] A. G. Chandavarkar, 'Money and Credit: 1858–1947', in D. Kumar (ed.), *The Cambridge Economic History of India* (Cambridge, 1982), 782–4; G. Tyson, *One Hundred Years of Banking in Asia and Africa* (London, 1963).

administration in the place of the government of the East India Company did not bring any radical change in economic policy, which remained the extraction of as much revenue as was compatible with political stability, but the methods of securing these goals became more effective. Consequently the British state in India sought to increase its revenues by promoting the commercialization and export of Indian agricultural produce by improving the credit rating of the state to encourage foreign investment and by developing India's communications and other infrastructure.[8] The improvement in communications was particularly beneficial to the managing agencies, which depended on such facilities for the swift transmission of market news and the co-ordination of decision-making between partners based in India and those in Britain. Moreover, the improvement in shipping and communications made expatriate careers in India more attractive.

These improvements in communications contributed to the development of industry, which, after a slow start, made striking advances in the period 1882–1900, when India's natural comparative advantages in cotton manufacturing were enhanced by the depreciation of the silver-based rupee.[9] The cotton industry was established and continued to be dominated by indigenous entrepreneurs, notably the Parsis of Bombay, even though a few British agency houses were managing cotton mills by the 1890s.[10] Most British entrepreneurs, however, became involved in jute, coal, and tea, which were the main industries of eastern India. Between the establishment of the first jute mill in Calcutta in 1856 and the early 1880s the growth of the industry was slow, but, in the 1890s the position of the industry was radically altered: demand increased with the recovery of world trade and the managing agency houses established a large number of new jute mills along the banks of the Hooghly as Calcutta began to capture Dundee's markets in Europe and

8 Cain and Hopkins, *British Imperialism*, 328; S. Bhattacharya, *Financial Foundations of the Raj* (Simla, 1971), pp. xlviii–li.

9 B. R. Tomlinson, 'Exchange Depreciation and Economic Development: India and the Silver Standard, 1872–1893', in C. Dewey (ed.), *Arrested Development in India: The Historical Dimension* (Manohar, 1988), 223–38.

10 The most important being Forbes, Forbes, Campbell and Co., and James Finlay and Co. See M. D. Morris, 'The Growth of Large Scale Industry to 1947', in D. Kumar (ed.), *The Cambridge Economic History of India* (Cambridge, 1982), 572–83.

America. The industry continued to perform moderately but not spectacularly well until the outbreak of the First World War.[11]

Coal mining was another industry in which the British agency houses developed major interests. This business had greatly benefited from the building of the East Indian Railway through the Bengali Ranigunj coalfields in the mid-1850s; after this time both the railways and river steamers began to use coal from these fields.[12] Like the jute industry, coal mining was initially slow to develop: by 1893 output was still less than 3 million tons per annum. After 1896, however, it grew rapidly and output had more than doubled by 1900, partly as a result of the steep rise in imported coal prices: by 1900 imported coal cost over ten times more than Bengali coal. Also, in 1894 the railway allowed the development of the rich Jharia fields in present-day Bihar with their high quality deposits, ensuring that it was now profitable to export Indian coal.[13]

Between 1860 and 1900, therefore, the classical colonial economic relationship emerged between Britain and India: India was to become a market for British manufactured goods, a supplier of raw materials, and a contributor to Britain's increasingly complex multilateral international payments system.[14] However, the transformation of the Indian economy along these lines was not entirely successful and the pursuit of profitable opportunities continued to be risky. The banking and credit system remained underdeveloped and the modern commercial sector was subject to periodic crises, such as those of the mid-1840s, 1866, and 1906.[15] Moreover, as India became more integrated into the international economy, it also became more vulnerable to its cyclical downturns. Thus the trade depression of the 1870s–1890s hit many of the nascent industries of India and the consequent instability of the silver rupee severely inhibited foreign investment.

[11] In 1898, a particularly good year, dividends paid out averaged 17.5%, but in general returns were no higher than for the cotton mills of Bombay; in the ten years 1905–14 jute mill dividends averaged 9.1% to Bombay's 10.3%. The highest profits were to be earned during the First World War, when in some cases dividends of over 100% were paid out. For further details see O. Goswami, *Industry, Trade and Peasant Society: The Jute Economy of Eastern India, 1900–1947* (New Delhi, 1991), 92–6.

[12] G. Harrison, *Bird and Company of Calcutta: A History Produced to Mark the Company's Centenary 1864–1964* (London, 1964), 33–5.

[13] R. R. Rungta, *The Rise of Business Corporations in India, 1851–1900* (Cambridge, 1970), 172–5.

[14] B. R. Tomlinson, *The Political Economy of the Raj, 1914–1947* (London, 1979), 1–6.

[15] For the weakness of credit and banking systems see Tomlinson, *The Economy of Modern India*, 31–3, 117; Rungta, *The Rise of Business Corporations*, 59.

Even so, on the eve of the First World War, the importance of India to the British economy was immense. India was the largest single market for British exports. She took 85 per cent of cotton piece-goods produced by Lancashire and was the largest single market for a wide range of British machinery exports: the Indian railway absorbed 17 per cent of British iron and steel production. India had also become a major recipient of British overseas investment despite the instability of the rupee: portfolio investment in government and railway debt was very substantial, probably amounting to around 10 per cent of total British capital invested overseas.[16] As Lord Mayo explained in 1913, the possession of India made the difference between Britain being a 'first rate and a third rate power', and Britain was, therefore 'determined as long as the sun shines in heaven to hold India . . . Our national character, our commerce demand it and we have, one way or another, £250 million of English capital fixed in the country.'[17]

The managing agencies had emerged in the context of this expanding Indo-British economic relationship and lay at its centre. The agency houses can be divided into two broad groups: the first, of which Gillanders, Arbuthnot and Co. and Jardine Skinner are typical, had mercantile roots.[18] They had begun as fluid partnerships between former East India servants or men who had been associated with the great agency houses of the late eighteenth century and young men sent out by Scottish or Lancashire merchants and manufacturers to organize and supervise shipments of goods to and from Calcutta and Madras. Initially, such firms acted as commission merchants, buying and selling commodities on behalf of third parties; soon, however, they began to conduct business on their own account. From the 1840s they responded to the opportunities presented by new markets for indigo and cotton and began to invest more in the management of estates and plantations. With the decline in both these markets in the 1850s they moved their capital into new sectors such as railway management and tea estates, but when these sectors were affected by the trade depression of the 1870s–90s, they began to look for new opportunities to employ their capital and invested in the Calcutta jute

[16] S. Chapman, 'Investment Groups in India and South Africa', *EcHR*, 38, (1985), 432.

[17] Lord Mayo, quoted in S. Gopal, *British Policy in India, 1858–1905* (Cambridge, 1965), 120–1.

[18] For the early origins of these firms see S. Chapman, 'The Agency Houses: British Mercantile Enterprise in the Far East, c.1780–1920', *Textile History*, 19: 2 (1988), 239–54; Jones, *International Business*, 51–4.

industry and Bihari coal mining.[19] So the first generation of managing agency houses, while maintaining their original commercial and trading interests, had by the 1900s become groups managing a widely diversified range of industrial and commercial concerns. In 1906, for example, Gillanders managed two jute mills, two coal mines, a number of tea gardens, a small engineering and construction company, had a substantial cotton piece-goods department, and acted as the sales and distribution agent for a variety of British industrial and commercial exporters, such as Nobel Explosives and Prudential Insurance; it also ran a small private bank and its own insurance company.

A second type of agency house began to appear in the 1860s, which, unlike the first, had its origins in a variety of non-mercantile concerns.[20] Typical of this second type was Mackinnon, Mackenzie and Co., Andrew Yule and Co., Bird and Co., Shaw Wallace and Co., Martin and Co., and Burn and Co. So, for instance, Mackinnon, Mackenzie and Co. had initially been a steamship company, aided by a Government of India contract to carry mails between Calcutta and Rangoon in the early 1860s, but it soon dominated much of India's inland and coastal shipping, while also becoming involved in a range of other industrial and commercial activities. Bird and Co., founded in the early 1860s, had originally been a labour contractor, having won lucrative contracts from the East India and other railways. However, by the early 1870s it had lost this business to competitors and acquired a number of new interests, including coal mines in the 1870s and 1880s, jute mills in the 1890s, and paper mills in the 1900s. By 1913 Bird and Co. managed nine jute mills, three collieries, a paper mill, a small engineering works, exported raw jute and cotton and imported cotton piece-goods, owned an insurance company, and had won a number of selling agencies for various British manufacturers. In its range of interests it was a fairly typical managing agency firm.[21]

While the two generations of managing agency houses may have had different origins, by the 1890s they had much in common. They were all private partnership firms, with the senior partners resident in Britain

[19] For the development and diversification of these firms see Chapman, 'Agency Houses', 246–9.

[20] For examples see the following, Harrison, *Bird of Calcutta*; H. Townend (ed.), *A History of Shaw Wallace and Co. Ltd.* (London, 1965); [Andrew Yule and Co.] *Andrew Yule and Co. Ltd.*, (privately printed, 1963); [Duncan and Co. Ltd.], *Being a Short History of the House of Duncan Brothers and Company, 1859–1959* (Privately printed, 1959).

[21] Harrison, *Bird of Calcutta*, 75.

and the junior partners in India, managing a diverse range of joint-stock companies, both commercial and industrial.[22] They provided under one roof the services of an entrepreneur, a merchant bank, and a management board for the companies they managed. Although they were not the majority shareholders in their managed companies, they effectively controlled them by means of legal agreements, known as agency contracts, which it was difficult for shareholders to overturn.[23] They were therefore able to use the limited capital available to a private partnership firm to establish control over a broadly diversified business group.[24] Initially, they acquired the managing agency contract over an ailing joint-stock company in the jute or coal industry and prided themselves on their reputation for reviving unprofitable companies.[25] Subsequently most of them then went on to establish completely new enterprises in these fields. Their technique was to use their own capital and that of friends to establish or revive the company and then, once it was running smoothly, to withdraw most of their own initial investment by offering shares to the public. It has been estimated that in 1875 there were at least 31 managing agency houses in Calcutta managing over 90 separate joint-stock companies; by 1913 there were about 60 such managing agents in India, again, mostly concentrated in Calcutta, but also prominent in Bombay and Madras.[26] By this time the larger managing agency companies were managing over a dozen separate companies.[27]

It is difficult to give precise figures for the capital assets of these firms or for their profitability, but rough estimates are possible for a few of them. So, for instance, the capital of Jardine Skinner in the mid-1840s was about £100,000, rising to about £660,000 in 1860, £760,000 in 1870, £990,000 in 1880, and £1.3 million in 1890.[28] Profitability varied considerably between each group. Thus, Andrew

[22] In the case of many of these firms, there were formally two partnership firms, one in Britain and one in India, although senior partners were members of both firms. So, for instance, Ogilvy Gillanders and Co. was based in London, with a correspondent partnership in Calcutta, Gillanders Arbuthnot and Co. For a diagrammatic representation of the firm's structure, see Fig. 1.

[23] For details of these contracts, see Chapter 2.

[24] See Fig. 1 for a the structure of the managing agencies.

[25] 'Confidential inspection notes', submitted in evidence in the *Report of the Indian Industrial Commission, 1916–18*, IOLR, Commerce Dept., L/E/201, file 3.

[26] Rungta, *Business Corporations*, 247; M. M. Mehta, *The Structure of Indian Industries* (Bombay, 2nd edn., 1961), 281.

[27] For the range of interests of the managing agency houses in 1911, see Table 1.

[28] From figures given in Jardine Skinner MSS, blue file, book i, 1 Oct. 1845, and estimates based on privately held material, Chapman, *Merchant Enterprise*, 115.

Yule was an exceptionally successful agency house managing over sixty companies in 1917, while Jardine Skinner only made on average about 2–3 per cent return on capital in the 1880s.[29] Of the sixty British managing agency houses operating in India in 1913 about a dozen were of substantial size. Andrew Yule, Bird and Co., and Mackinnon, Mackenzie and Co. are thought to have been the largest. Estimates suggest that about five or six other agency houses were of a comparable size to Bird and Yule, including Jardine Skinner.[30] However, it is difficult to estimate the investments of the houses themselves, particularly because it was normal for them to exercise control over far greater volumes of capital than they actually owned. Thus, when Bird and Co. merged with the German agency house of F. W. Heilgers in 1917, the combined organization had capital investment valued at £20 million and an annual profit of £3 million, but Bird seems to have had shareholdings on its own account of only £2–3 million.[31]

The managing agencies' success in the second half of the nineteenth century was thus partly the result of the long period of growth in the international economy and of new opportunities afforded by the integration of the Indian economy into the international trading system. In addition, the firms themselves had a number of features which ensured that they were particularly well placed to take advantage of such opportunities. Their strong links with Scotland and Lancashire, and later their commercial links with London, gave them knowledge of international markets and access to capital and trained personnel, all of which had been scarce in India.[32] More specifically, they were able to exploit the experience of Dundee and Manchester in the jute and cotton industries respectively. Also, their undoubted reputation for probity and trustworthiness, underwritten by their willingness to invest some of their own capital in the companies they managed, gave investors confidence at a time when investments in India still carried high risks.

[29] Jardine Skinner MSS, blue file, i, 17.5.1894.

[30] A. K. Bagchi, *Private Investment in India, 1900–1939* (Cambridge, 1972), 176–8. For the capital assets of managing agency houses see Table 3.

[31] Harrison, *Bird and Company*, 115–18; Chapman, *Merchant Enterprise*, 125.

[32] Chapman, 'Agency Houses', 245; D. Chakrabarty, *Rethinking Working Class History: Bengal 1890–1940* (Princeton, 1989), 15–24; M. D. Morris, 'South Asian Entrepreneurship and the Rashomon Effect, 1889–1947', *Explorations in Economic History*, 16 (1979), 350–1.

One of the most important advantages of the managing agency, therefore, was the structure of the firm, which allowed partners to maintain control of several different limited liability companies without having to invest a large amount of their own capital. This enabled the managing agents to diversify into many areas with minimal personal risk, and to use their limited capital resources to invest in a wide range of the new opportunities provided by the expanding Indian economy. Because the core company was a partnership firm, the partners enjoyed complete autonomy and could make decisions free from the interference of shareholders. This autonomy and control, combined with the capital liquidity which the partners maintained, ensured that the managing agencies were able to act rapidly and flexibly on the many new opportunities which presented themselves during the period. It was this manoeuvrability, guaranteed by the partners' control and autonomy, which was most prized by the managing agencies, and which continued after 1918, as will be seen in the next chapter. The partners came to develop a strongly entrenched commitment to a flexible and opportunistic style of business, and their business practice came to be dominated by a determination to defend their control.

Business Style and Firm Hierarchies

This approach to business had more general implications for the way in which the partners organized their firms and the values which they prized in recruiting new staff. They developed a highly personal conception of business, and consciously resisted pressures to develop a complex business organization, which would have required the employment of specialists who were knowledgeable about particular areas of the enterprise. This seems to have been in part because they were suspicious of the influence of technicians and their tendency to escape the control of partners. However, it was justified by a set of ideas about the ways in which business should be conducted, which valued individual action, energy, and courage rather than cold expertise and bureaucratic calculation. This justified the partners' insistence that technicians and anybody with knowledge of the Indian market be subordinate within the firm, and that only those with the appropriate 'character' be recruited.

The statements of many of these businessmen and of their critics confirm that they held a particular view of themselves as merchants and they repeatedly described themselves as 'merchant adventurers' or

'merchant princes'.[33] This identity was associated with particular qualities which were, by implication, regarded as both morally and socially superior to those of the industrialist or bureaucratic manager.[34] The British merchant in India was, in his own eyes, a self-reliant individualist rather than a professional manager; he was bold in searching for new ventures and markets but cautious in committing his capital. He did not need to depend on expertise or specialists, preferring instead to rely on his own instincts to judge the potential of new ventures; he worked in a highly competitive environment in which the ability to act quickly and decisively was at a premium and he had little interest in long-term planning and research. As the French observer Andre Siegried commented in 1889: 'The Englishman acts like an old-time sailor; he manoeuvres in an unstable environment and he accepts that instability as a fact which he cannot change.'[35]

A recurring theme in these businessmen's self-evaluations was the importance of individual strength of character and courage in business. So, for instance, the business style of James Mackay, later Lord Inchcape, was widely admired:

> He came to Bombay with absolutely nothing. Put in the shipping department of Mackinnon's, he canvassed for business personally and was a spirited defender of the opium trade. He went to exceptional lengths to expand business personally.[36]

[33] See, for example, the evidence of Henry Procter of Forbes and Co. to the Indian Public Services Commission of 1913, 'we call ourselves merchants, but we have expanded from merchants and we have promoted railways, and we have a cotton mill and manganese mines and we manage a steamship company, in addition to the ordinary business of a merchant'. H. Procter, *Report of the Indian Public Services Commission, 1913*, appendix, vol. vi, p. 221.

[34] For the superior status of the merchant over the industrialist see R. J. Morris, *Class, Sect and Party: The Making of the British Middle Class: Leeds 1820–1850* (Manchester, 1990); S. Nenadic, 'Businessmen, the Urban Middle Class and the "Dominance" of Manufacturers in Nineteenth Century Britain', *EcHR*, 2nd ser. 44 (1991), 66–85. See also P. Jones, S. Nenadic, and P. Hills, 'Studying the Middle Class in Nineteenth Century Urban Britain', in *Journal of British Studies* (Oct. 1993).

[35] Quoted in G. Tyson, *The Bengal Chamber of Commerce and Industry, 1853–1953: A Centenary Survey* (Calcutta, 1953) , 5.

[36] From a personal memoir by R. S. Ramchandra, MSS Binny, file 27, 163. Mackay was an assistant with Mackinnon Mackenzie, later rose of be the senior partner, and founded the P & O group. He was the most senior business figure in Edwardian India, served on a number of government committees and commissions, and was seriously considered as a candidate for the Viceroyalty as a successor for Curzon. For a modern biography of Inchcape see S. Jones, *Trade and Shipping: Lord Inchcape, 1852–1932* (Manchester, 1989).

Similarly a correspondent for the *Financial Times*, writing in 1926, identified this as the most important asset of a British-Indian businessman:

> The secret of our business success in India lies chiefly in the personal touch. The merchant must remember that it is individuality that counts. He must model his behaviour on that of an English MP towards his constituents.[37]

His views were endorsed by Inchcape, one of the most successful managing agents, who commented in the margin: 'there is a great deal in this'.[38]

The idea that the businessman should be brave and adventurous is advanced again and again in the memoirs of these men and can be found even as late as 1979 in a speech by Sir Colin Campbell in his address to the shareholders of the successor company of Finlay's managing agency. Campbell declared 'we are merchant adventurers. We go to seek a fortune for our shareholders in many parts of the world.' This was not the most obvious self-image of the representative of a business which by this time was mainly engaged in the manufacture of cotton textiles and the management of tea plantations.[39] In a similar vein, Owain Jenkins entitled his 1988 memoir *The Autobiography of a Merchant*, even though as the managing director of Balmer Lawrie he was at the head of an almost exclusively industrial firm.[40]

Thus, a personal approach was considered to be much more important in business life than the establishment of complex organizational structures dependent on rules, routine, and the delegation of responsibility. So, Owain Jenkins strongly defended the practice, still very common in the late 1930s, of paying junior executives on commission rather than regular salaries. He wrote, 'working on commission is like the prospect of being hanged. But it is also a very useful substitute for proper administration. You don't need to supervise.'[41] The emphasis placed on personal management by the partners meant that technicians and other specialists had low status in these firms. A group of partners retained complete control; they employed assistants, some of whom

[37] Special Correspondent in India, 'The Secret of Success', *Financial Times*, 12 Oct. 1926.

[38] Annotation to the article by James Mackay (Lord Inchcape) in MSS Binny, file 27, 163.

[39] Quoted by J. F. Ferguson, '100 Years of East India Trade', an article marking the centenary of James Finlay and Co., *Capital*, 13 July 1971, 125.

[40] O. Jenkins, *Merchant Prince: An Autobiography* (London, 1988).

[41] Interview with Owain Jenkins, IOLR, MSS Eur. R.T. 100 (1983).

could expect to be made partners. These assistants would almost always be 'generalists' who would work successively in a number of departments in the firm's headquarters. They were expected to develop breadth of experience rather than any special expertise. Subordinate to them were British managers, technical specialists, and marketing personnel, who would be employed in mills or 'upcountry'. The lower ranks of the clerical hierarchy were populated by 'Anglo-Indians' (Eurasians), who occupied secretarial and sales positions, and Indian accountants.[42]

Technicians and specialists tended to be regarded with suspicion, as people who might threaten partners' prerogatives. They were seen as dangerous employees, lacking a sense of sound 'business', interested in innovation for its own sake and therefore prone to making expensive mistakes. So, for instance, Edward Benthall of Bird and Company wrote in 1929: 'Engineers and specialists must not be allowed to run away with themselves. Optimists and progressives must not be given their heads.'[43] One of his predecessors, William Ironside, put forward similar views in 1916:

> I think inventors and pioneers are rather apt to be careless. They've got all the ideas and all the imagination and their schemes are probably very sound. But they lack something of the *business brain*. We must educate these people to be more cautious.[44]

Similarly, a senior partner in Wallace Brothers recalled that specialists were deliberately excluded from decision-making because

> engineers were always wanting to build more mills, or to do this or to do that. I believe that one of the great failings in some companies were where these spending people were also those who authorised the spending.[45]

Business and Society in British India

Economic conditions and the peculiar nature of business in India were not the only forces which shaped the character of the managing

[42] For this career structure, see interview with H. Bannerman, IOLR, MSS Eur. R.T. 80/1–2 (1983); interview with A. G. Sloan, IOLR, MSS Eur. T.R. 124 (1983); H. N. Gladstone, Memorandum on his visit to Calcutta, MSS OG, file 2724, Sept. 1909.

[43] E. Benthall, 12 May 1919, MSS Benthall, box 9.

[44] Evidence of W. A. Ironside, *Indian Industrial Commission*, iv. 884.

[45] Recorded interview with Alexander Bruce (India 1920–50), IOLR, MSS Eur. R.T. 84 (1983).

agencies. Most of the agencies' headquarters were located in Calcutta, the capital of British India until 1913, and their partners were among the most prestigious members of colonial society.[46] As historians and contemporaries noted, expatriate society in Calcutta was a highly internally stratified society in which a variety of institutions and associations, including the numerous clubs, churches, and the managing agencies themselves, sustained a set of rigid racial and social hierarchies.[47] The partners' interest in preserving their exclusivity and autonomy, in relation to other Europeans, to Indian business groups, and to their subordinates within the firm, may have been in part the consequence of the economic forces described above, but it was reinforced by the powerful social codes of colonial society.

The Partners

Initially, the partners of the managing agencies came from diverse social backgrounds. However, many of them, including a large proportion of the founders of the firms, came from Scotland, both the east and the west.[48] The early partners of the major agency houses, Mackinnon Mackenzie, Gillanders, Arbuthnot, Andrew Yule, and Jardine Skinner, were Scottish, as were the partners of nine of the eleven founding

[46] Although there were some British managing agency houses with headquarters in Bombay such as James Finlay and Co. and Forbes, Forbes, Campbell and Co., and also in Madras such as Parry and Co. and Binny and Co. Many of the managing agencies also had branches in other Indian cities such as Delhi and Karachi. See R. J. F. Sullivan, *One Hundred Years of Bombay: A History of the Bombay Chamber of Commerce, 1836–1936* (Bombay, 1936), 274–6; R. Tirumalai, *The Voice of Enterprise: 150 Years of the Madras Chamber of Commerce and Industry* (Madras, 1986), 30–3, 428.

[47] For the nature of Calcutta society in the nineteenth century see K. Ballhatchet, *Race, Sex and Class Under the Raj: Imperial Attitudes and Policies and their Critics, 1793–1905* (London, 1980); J. M. Compton, 'British Government and Society in the Presidency of Bengal *c.*1850–*c.*1880: An Examination of Certain Aspects of British Attitudes, Behaviour and Policy', D.Phil. thesis, University of Oxford, 1968; D. Kincaid, *British Social Life in India, 1608–1937* (London, 1938); H. Compton, *Indian Life in Town and Country* (London, 1912); W. Blunt, *Ideas About India* (London, 1884), reprinted as *India Under Ripon* (London, 1909); H. J. S. Cotton, *New India* (London, 1904); id., *Indian and Home Memories* (London, 1911); R. Pearson, *Eastern Interlude* (Calcutta, 1954); H. Hervey, *The European in India* (London, 1913); C. E. Buckland, *Sketches of Social Life* (Calcutta, 1884); M. Massey, *Recollections of Calcutta for Over Half a Century* (Calcutta, 1918); H. Hobbs, *John Barleycorn in the East: Old Time Taverns in India* (Calcutta, 1944); Lovat Fraser, *India Under Curzon* (London, 1911).

[48] On the predominance of Scots in Calcutta's colonial economy see S. Jones, *Two Centuries of Overseas Trading: The Origins and Growth of the Inchcape Group* (London, 1986), 5–8; J. G. Parker, 'The Scottish in India', in R. Cage (ed.), *The Scots Abroad* (London, 1985), 191–220; Jones, *International Business*, 51.

companies of the Bombay Chamber of Commerce in 1836.[49] There have been various explanations for the overrepresentation of Scots in colonial business. One view is that both the lack of opportunities in the Scottish economy and difficulties in penetrating English business élites forced Scotsmen to seek opportunities overseas.[50] Others have argued that Scottish education was better suited to commerce: it has been suggested that the Scots, with their own legal and banking arrangements, traditions of independent trade, and distinctive education system were particularly well placed to participate in growing trade with the East. For example, one early nineteenth-century merchant, James Morrison, chose Edinburgh University for his son on the advice of James Mill who believed that Cambridge 'might spoil him for commerce'.[51] Whatever the reasons for the early interest of Scottish merchants, the tendency to recruit by kinship and acquaintance ensured that by the early nineteenth century many of the merchants independent of the East India Company and active in India were of Scottish origin. Several of the merchants and manufacturers based in Britain who established trading concerns in the Far East in the 1820s and 1830s were also of Scottish origin. In some circles in Scotland, and particularly in Dundee, a career in India was regarded as highly prestigious: one assistant from Dundee remembered that he had been impressed as a youth by the grand houses and opulent lifestyle of retired Indian merchants and had therefore resolved to go to India himself. Others considered that the draw of India was the promise of early responsibility, promising an escape from a 'suburban' career;[52] others recruited in the early twentieth century recalled that it was simply expected that they would make their careers in India.[53]

The background of the early pioneers falls into three categories: firstly those who were already in India as merchants independent of the East India Company between the 1800s and the 1820s; secondly,

[49] *The Bombay Almanac, Directory and Register for the Year 1842* (Bombay, 1842), 9. Stephanie Jones has attempted a prosopographical study of the original founders of what later became the Inchcape group, which was made up of a number of Managing Agency Houses. Of the 56 pioneers she identifies 34 as originally from Scotland. Jones, *Two Centuries of Overseas Trading*, 29–35, app. I.

[50] Parker, '*The Scottish in India*'.

[51] Richard Gatty, *Portrait of a Merchant Prince: James Morrison, 1789–1957* (Northallerton, 1981), 171; see also Jones, *International Business*, 51; J. Forbes Munro, 'Scottish Overseas Enterprise and the Lure of London: The MacKinnon Group, 1847–1893', *Scottish Economic and Social History*, 8 (1988).

[52] A. Bruce, interview, IOLR, MSS Eur. R.T. 84/1–2 (1983).

[53] J. Burns, interview, IOLR, MSS Eur. R. 168 (1983); H. C. Bannerman, interview, IOLR, MSS Eur. R.T. 80/1–2 (1983).

those who travelled to India as the representatives or 'supercargoes' of British merchants and shippers and who stayed on to form partnership firms of their own; thirdly those who went to India entirely independently after the 1830s to make a fortune in the East. Most of the men who became partners in these firms between the 1830s and 1880s were from lesser gentry, wealthy farming, professional, or mercantile families. They had, therefore, very similar backgrounds to nineteenth-century merchants in Britain.[54] William Mackinnon, for example, the founder of the British India Steam Navigation Company and of the managing agency house Mackinnon, Mackenzie, was from one such wealthy farming family and began work in the office of a Portuguese East India merchant before leaving for India in 1847. He maintained close contacts with landowning groups in Scotland and in later years recorded that he spent about one-quarter of his time dealing with their requests that he employ their sons as assistants in his firm.[55] Walter Duncan, the founder of the firm Duncan and Co., was from a West Lothian farming family and began his career in a Glasgow merchant's office before leaving for India in 1855.[56] James Mackay who went out to India in the 1870s and became a partner in the managing agency house of Mackinnon, Mackenzie, was the son of an Arbroath shipmaster; his background was also comfortable: he had inherited £2,000 and was educated at the prestigious Elgin Academy in the early 1860s. He became a clerk to a Glasgow shipping company in 1872 and joined Mackinnon as an assistant in 1874.[57]

Towards the end of the nineteenth century the backgrounds of new assistants and future partners tended to become even less diverse. Increasingly recruits were sought among those with a public school education, and from the eve of the First World War new assistants tended to be drawn from the British public schools and sometimes from among graduates of the ancient universities. One businessman giving evidence before the Indian Public Services Commission in 1913 commented: 'the numbers of recruits [to covenanted assistantships] from public schools has been increasing every year, there are now even some university men.'[58]

[54] M. Daunton, *Progress and Poverty: An Economic and Social History of Britain, 1700–1850* (Oxford, 1995), 334.

[55] P. J. Griffiths, *Mackinnon, Mackenzie and Co.* (London, 1966), 17.

[56] P. J. Griffiths, *A History of the Inchcape Group* (London, 1977), 7.

[57] Jones, *Trade and Shipping*, 1–10.

[58] A. W. Binning, Appendix to the *Report of the Indian Public Services Commission of 1913* (Calcutta, 1914), iv. 131.

The Cambridge Appointments Board, in particular, became an important conduit for new recruits to the managing agency houses and the Inchcape group recruited extensively from Cambridge throughout the 1920s.[59]

However, despite the trend towards graduate recruitment, kinship links remained important, particularly in the older firms such as Jardine Skinner and Gillanders Arbuthnot. Newer firms, such as Bird and Co., also recruited partners within the family.[60] Often assistants would be drawn from the senior partners' extended families, although some firms, such as Shaw Wallace, enforced a prohibition on the employment of members of partners' families.[61] Partly as a result of this, many of these firms continued to draw their senior staff from Scotland; as one of the last senior partners of Macneill commented, 'the firm being a Scottish company, in many ways the tendency was always to recruit in Scotland'.[62]

The memoirs of retired merchants suggest that in going to India they were attracted by both the colonial style of life and by the material advantages of a commercial career in the East.[63] One obvious

[59] Recruitment records 1920–31, MSS Binny, files 27, 823–8; Balmer Lawrie established close links with Balliol College, Oxford, after the First World War; see Jenkins, *Merchant Prince*, 26.

[60] For instance, Edward Benthall, son-in-law of the senior partner of Bird and Co., Ernest Cable, became senior partner himself in 1928. See Harrison, *Bird and Company* 67.

[61] See Townend (ed.), *History of Shaw Wallace*, 36.

[62] H. C. Bannerman, IOLR, MSS Eur. T. 80.

[63] This is not the place for a full prosopographical survey of managing. However, the brief biographies of a few assistants, recruited in the Edwardian and inter-war eras, may give some idea of the type of young man these firms recruited. H. C. Bannerman came from a middle-class Scottish background. He attended Dundee High School to the age of 16. In 1916 he was apprenticed to a jute merchant in Dundee and attended Dundee Technical College for one year. Subsequently he went out to Calcutta on a four-year contract as an assistant in the firm of Macneill, Barry and Co. His salary was Rs 400 p. m. in his first year rising to Rs 550 p. m. in his fourth year, which was considered a good salary in comparison with similar posts in Britain. Initially he worked in the firm's jute department, but also developed a knowledge of its tea gardens and inland shipping interests. Between 1937–40 he was a member of the Bengal Legislative Assembly (representing the Indian Tea Association). In 1940 he became a partner and received a share of the firm's profits; he became senior resident partner in Calcutta in 1947. In 1948 Macneill Barry was converted into a limited company and Bannerman became chairman of the board of directors; he also held about 30 outside directorships. In 1951 he returned permanently to work in the firm's London office. In 1962 he was appointed a director of Inchcape group, of which Macneill Barry was a part since the First World War. He retired in 1965. For further details see H. C. Bannerman, interview, IOLR, MSS Eur. T. 80. Another example is James Burns, who joined the firm of James Finlay and Co. in 1919, and had a similar background to that of Bannerman. The son of a manufacturer's agent, he attended a grammar school in Glasgow, but could not afford to go to university. He decided that a career in India would enable him to 'make a fortune quickly'. He became a director when the firm became a limited company in the 1940s and chose to remain in

appeal of such a career was the opportunity it presented to make a good income and possibly a fortune.The salaries of young covenanted assistants were higher than their equivalents in Britain. Between 1890 and 1930 most young assistants were paid around £350–£500 in their first four years and could expect bonuses of around 25 per cent in addition per year.[64] New covenants would be negotiated every four to seven years and salaries rose sharply with each new contract. Conditions usually included one fully paid return passage to Britain, where the assistant usually spent around six months at 50–70 per cent of his Indian salary. Thus, on the eve of the First World War, salary levels and associated perquisites of assistants in commercial firms were higher than those of equivalent ICS officers at every level. Several business

India after independence. In the 1950s he became chairman of the Bombay Millowners' Association and president of the Bombay Chamber of Commerce. He returned permanently to Glasgow in 1957 and remained a director of the company until 1974. See J. Burns, interview, IOLR, MSS Eur. R.T. 84/1–2. Owain Jenkins is a good example of an assistant from a slightly different background. The son of a high-ranking ICS officer, Jenkins was educated at Charterhouse and Oxford. In 1929, at the age of 22, he was recruited to the managing agency house of Balmer Lawrie through a Balliol connection. He worked initially in the firm's tea estates department, then in 1937 he became personal assistant to the managing director and developed a knowledge of the firm's mining and engineering interests. He was commissioned to an Indian regiment during the Second World War. In 1944 he joined the Directorate General of Munitions Production. In 1948 he became managing director of the firm, now a limited company. From 1956–7 he was president of the Bengal Chamber of Commerce and of the Associated Chambers of India. He returned permanently to Britain in 1958, where he received a knighthood. He retained a number of company directorships in India, including the Calcutta Electric Supply Corporation and MacLeod Russell. He finally retired in 1982 and became a director of numerous British companies operating in the Far East. The increasing typicality of this kind of public school and university background after the First World War is evident in the recruitment records of MacKinnon, MacKenzie and Co. Between 1928–31 the firm recruited 25 new assistants. Of these 13 came from the south of England, particularly London and Essex, almost all of whom had public school and Oxbridge backgrounds; 4 were Anglo-Indian and 8 were Scottish, most of whom had had commercial experience as clerks in Glasgow. For details see the Inchcape collection, MS 27,823. For a more comprehensive selection of short biographies of managing agency recruits see S. Jones, *Merchants of the Raj*, (Basingstoke, 1992) app. I, and her *Two Centuries of Overseas Trading*, apps. I: i and I: ii.

[64] H. C. Bannerman's salary in 1917 was Rs 400 p.m. (or £360 p.a.) rising by Rs 550 p.m. (or £500 p.a.) in his fourth year. H. C. Bannerman, interview, IOLR MSS Eur T. 80. Owain Jenkins's first year's salary in 1929 was £500 p. a. See O. Jenkins, interview, IOLR, MSS Eur. T. 32. Several witnesses to the Public Services Commission of 1913 confirmed that the starting salary for a young assistant had been in the region of Rs 350–400 p.m. since the 1890s and that this was far more than an equivalent clerk might earn in a British commercial house in England. J. C. Shorrock (director of the Bank of Bengal) claimed that 'English assistants in India begin on £320 p.a., in Great Britain a similar young man receives £75–100 p.a.'. Appendix to the *Report of the Indian Public Services Commission of 1913*, iii, Evidence, Bengal, 252.

witnesses to the Indian Public Services Commission of 1913 took this view: the president of the Burma Chamber of Commerce commented that, 'I should think that certainly in the larger firms he [the covenanted assistant] gets considerably more [than an ICS officer]'.[65]

Many assistants became partners. Partnerships could be earned through service and often the firm would, in effect, lend the assistant the capital to buy into the firm; the loan would then be set against the young partner's claim on profits until it was paid off.[66] Assistants could expect to rise to become a partner after a period of service of between ten and twenty years service. Even for those who failed to become partners, the rewards of a career in India were still great. Senior assistants, after twenty years service, could receive Rs 2,500–3,500 p.m. (£3,500 p.a.).[67] Thus by the age of 40 many would have achieved a partnership and its accompanying prestige and wealth. Usually a partner would then spend another eight to ten years in India, with the last few years as senior 'resident partner' after which he could return permanently to Britain. He would often work in the London or Scottish office of the firm and assume paid directorships of a variety of British and Indian-based companies. While there is insufficient evidence to generalize it seems that most used their fortunes to buy substantial property in the Home Counties and Scotland or perhaps pursue a career in public life.[68]

Evidence of the fortunes of these men on retirement is patchy. However, anecdotal material suggests that before the First World War the fortunes made by managing agency house partners were very

[65] A. W. Binning, Appendix to the *Report of the Indian Public Services Commission of 1913*, iv, Evidence, Burma and Assam, 134.

[66] For example, the new partnership agreement for the firm Barry and Co., of 1903, elevated two assistants to partnerships on such terms, Deed of Partnership between Patrick Playfair *et al.*, Inchcape collection, MS 27,864, 3 Mar. 1903.

[67] A. W. Binning, Appendix, 131.

[68] Henry Neville Gladstone, the senior partner in the firm of Gillanders, Arbuthnot and Co. and son of William Gladstone, purchased land in Chesire and built a substantial villa for himself after his semi-retirement after 1890. He took up a variety of public duties, acting on various government commissions and committees and as the Sheriff of Flintshire. There is some evidence that he was able to help his brother Herbert financially. See I. Thomas, *Gladstone of Hawarden* (London, 1936); A. L. Tucker, who went out to India as an assistant to the firm of Kilburn and Co. in 1917, retired as a partner in 1946. He bought a villa in Surrey and became chairman of the local Conservative Association. He drew a yearly share of profits in the firm of approximately £3,700 p. a. until his death in 1960. Correspondence concerning A. L. Tucker, Inchcape collection, MS 27,782, 1947–60; after retiring from Balmer Lawrie, Owain Jenkins accepted a variety of directorships for companies with Far Eastern interests. See the obituary of Sir Owain Jenkins, *The Times* (London), 12 May 1996.

substantial and a number of business witnesses to the 1913 Public Service Commission suggested that it was not unusual for partners to retire with fortunes of over £60,000 and for long-serving assistants to accumulate around £30,000.[69] Again this was more than ICS officers, who received £1,000 p.a. on retirement. Several witnesses to the 1913 Public Services Commission confirmed this: Mr N. McLeod, president of the Bengal Chamber of Commerce, when asked whether a commercial man could expect as much as £1,000 p.a. on retirement, replied, 'if he is a capable man he would get a very much larger sum. For a man who is a successful merchant, it would be a very small retiring allowance indeed.'[70] However, on the eve of the First World War both the material and psychological benefits of an Indian commercial career were thought, by some observers, to have declined somewhat from their Edwardian peak. Several business witnesses to the 1913 Public Services Commission agreed with the view that,

> the life offered to him [a young assistant] in India is now less attractive, not only because India has become more expensive, but because life and business in India is harder than it used to be and less full of any chance or adventure, such as appeals to a boy, and also because the openings for making a fortune are less than they used to be.[71]

Nineteenth-Century Calcutta: The Formation of a Colonial Society

Once these businessmen reached Calcutta, they became part of a prominent group within colonial society. Until the 1860s the European

[69] Such figures for salaries and property accumulated on retirement suggest that a reasonably successful commercial career in India would place a man in the higher reaches of the British middle-class as measured by income and property; the British middle class being that group of approximately 900,000 in 1912 with annual incomes above the income tax threshold of £160 p.a. or property of between £500 and £50,000. The average amount owned by members of this group was just under £5,000. This assessment is based on the calculations of Leo Chiozza Money, *Riches and Poverty* (1905 and 1912), cited in J. Harris, *Private Lives and Public Spirit: Britain, 1870–1914* (London, 1994), 107.

[70] A. W. Binning, Appendix, 131; N. C. McLeod, Appendix to the *Report of the Indian Public Services Commssion of 1913*, iv, Evidence, Bengal, 449.

[71] J. C. Shorrock, Appendix to the *Report of the Indian Public Services Commission of 1913*, iv, Evidence, Bengal, 258; H. C. Bannerman recalled that just such a provident fund was introduced at Macneill and Co. in 1940 in recognition of the inability, even of senior staff, to save enough from their salaries to fund their retirement, H. C. Bannerman, interview, IOLR, MSS Eur. T. 80. Similarly, Owain Jenkins's fortune on retirement in 1956 was considered insufficient and he embarked on a second career in Britain; see his obituary, *Independent*, 8 June 1996.

population of Calcutta was small, but it grew rapidly. In 1861 the non-official European community comprised 46,000, of whom 15,000 were domiciled Anglo-Indians, or settlers.[72] Ten years later it numbered about 70,000, of whom about 22,000 were born in Britain.[73] By the inter-war period, the number of British-born Europeans resident in Calcutta had risen to 45,000 (the total European population of Bengal, including those born in India as well as Europe was approaching 90,000).[74]

The social composition of expatriate colonial society was always highly diverse. One of the main divisions, as will be seen, was between officials, including civil servants and the military, and non-officials. Yet even within non-official society there were distinctions, particularly between those of mixed parentage or 'Eurasians', settlers or the 'country born', and sojourners born in Britain who expected to return. While in the 1850s and 1860s the settler community had grown rapidly in order to build and service the railways and was substantial compared with other European groups, after the 1880s the structure of the community changed and was increasingly dominated by the sojourner business groups associated with the agency houses. These businessmen led non-official political organizations and were well represented in the political councils and assemblies of the provinces and the centre, after 1919 monopolizing the seats reserved for 'Europeans' as well as those reserved specifically for European business.[75]

Even though businessmen had considerable status within Calcutta society, they were not at the apex of the hierarchy, a position which was occupied by senior civil and military officials. Henry Cotton, an observer of colonial society in the mid-1880s described prevailing hierarchies thus:

Satirists have divided the English in India into the three great castes of the Hindoos: the ruling caste, who, like the Brahmans of old, reserve to themselves in perpetuity all situations of authority and emolument under the state; the military caste, who keep alive the tradition that India is held by the sword; and

[72] *Census of England and Wales for the year 1861*, iii, General Report, 213–17.

[73] *Census of England and Wales for the year 1871*, iv, General Report, 304–9. *Memorandum on the Census of British India of 1871–72* [C.-1349] (1875), 29, 53–5. See also R. K. Renford, *The Non-Official British in India to 1920*, (New Delhi, 1987), 28–31.

[74] R. K. Renford, *Non-Official British in India*, 392; by 1935 Franchise Commission records show that the total European population of Bombay was 18,000 (10,000 of whom were resident of Bombay city), while in the United Provinces Europeans numbered 24,000, and 19,000 in the Punjab. See Memorandum, 'The Delimitation of European Seats in Provincial Legislatures', in IOLR Q/IDC, file 43, 'European Franchise', 1935, 8.

[75] See Table 9 for business's political representation. For the dominance of business in the non-official community, see Renford, *Non-Official British in India*, 396–7, appendix IV.

the mass of non-officials, who, as a rule, are too absorbed in their professions and pursuits to concern themselves with abating the exclusive pretensions to place and power of the civilian and soldier.[76]

Strongly pronounced status gradations were a common feature of many expatriate communities in the British empire, but they seem to have been particularly evident in Calcutta.[77] As one assistant recalled:

Class distinction was very acute in the social life of the community. One was tactfully told that it was 'just not done' to fraternise with certain elements. This line of thinking did not lend itself to a total feeling of 'esprit de corps'.[78]

These social and status divisions are particularly evident in the non-official community. There were three broad strata within non-official society: senior businessmen in finance and mercantile business and a few professionals, at the top of the hierarchy; 'trade', meaning those connected with retailing, and some technical men in the middle; other ranks, and sometimes Eurasians might be considered to belong to the lowest ranks of European society, at the bottom. However, even the higher echelons of the commercial community were highly stratified, as one businessman noted:

In the top hierarchy were the half dozen British banks. To be in the Chartered, the Hong Kong or the Bank of Bombay was gilt-edged, so too was the Bombay company. With these aristocrats ranked the shipping agents, especially those from the P&O and also the great managing agency firms like Andrew Yule or Bird in Calcutta and the heads of the railways. The exchange brokers also held their heads high. At a distinctly lower level were journalists, managers, engineers or managers of small importing agencies, especially those that dealt with new inventions such as typewriters or batteries. A lower status altogether was assigned to those who served in a shop or to the salesmen who moved around India with vast trunks of samples. All these latter groups of Europeans were to be found in the more easy-going clubs and gymkhanas. What they had in common was that they were not Eurasians.[79]

The institutions and voluntary associations, such as churches, chambers of commerce, freemasonry, and social and sporting clubs, came to

[76] Cotton, *New India*, 203–4.

[77] For social stratification in other cities of the empire see J. Butcher, *The British in Malaya 1880–1941: A Social History of a European Community in Colonial Southeast Asia* (Kuala Lumpur, 1979), 127–66; V. Bickford-Smith, *Ethnic Pride and Racial Prejudice in Victorian Cape Town: Group Identity and Social Practice, 1875–1902* (Cambridge, 1995), 10–39.

[78] A. T. Robinson, interview, IOLR, MSS Eur. R.T. 121 (1983).

[79] N. Carrington, unpublished memoir, IOLR, MSS Eur. C. 392 (1988), 125.

reflect this high degree of social differentiation. Freemasonry was a particularly influential institution among the early British business community. The first lodge was founded in Bengal in 1740; by 1798 there were 4 and by 1898 33; by 1937 there were 76 lodges in Bengal as a whole and 26 in Calcutta alone. The popularity of freemasonry among the affluent businessmen of Calcutta was dramatically illustrated when, in 1904, the Calcutta Grand Lodge moved from its premises in Bentinck Street to the monumental Freemasons' Hall on Park Street, the main thoroughfare of central Calcutta.[80] Although information about the activities and membership of the various Bengal and Calcutta lodges is not readily accessible, the records that have been made available suggest that the Calcutta business community was very strongly represented.[81] In the late 1930s and 1940s lodge post-holders were drawn from a variety of prominent firms, including ICI, Bird, Heilgers and Co., Imperial Tobacco, Ralli Brothers, Balmer Lawrie, Jardine Skinner, Shaw Wallace, Kilburn and Co., Mackinnon, Mackenzie and Co., Macneill and Co., and the Chartered Bank. One surviving employee of Andrew Yule and Co. implied that freemasonry also operated as a network of recruitment from Scotland to firms in Calcutta.[82] The precise social composition of freemasonry is also difficult to gauge, although anecdotal evidence suggests that the individual lodges catered for particular social groups.[83]

The churches of Calcutta also seem to have reflected social differences within the expanding British community. The city had an Anglican cathedral as well as two other Anglican churches, which seem to have been dominated by the official community.[84] The élite of the business community favoured St Andrew's Church, a presbyterian church built in 1815 and reputedly the best endowed of the European churches in Calcutta. It lay at the heart of the business district at the corner of Clive Street and seems to have been more popular among the business community than the Anglican Cathedral of St John's. The ICS

[80] W. K. Firminger, *Thacker's Guide to Calcutta* (Calcutta, 1906), 407.

[81] The author interviewed the secretary of the Grand District Lodge of Calcutta, Mr D. Hilt, in Mar. 1995 and was shown a number of yearbooks recording the names of the most senior office-holders in the Calcutta lodges between 1938 and 1947.

[82] Interview with Mr R. Wright (an assistant with Andrew Yule and Co.) (Calcutta, Mar. 1995) by M. Misra.

[83] Interview with Mr Denzil Hilt (Mar. 1995) by M. Misra.

[84] [Tollygunge Club Ltd.], *Calcutta: 200 Years: A Tollygunge Club Perspective* (Calcutta, 1981), 35.

seems to have displayed some snobbery towards this commercial presbyterianism; as one contemporary noted:

> In Calcutta all religions are freely permitted. The pagans carry their idols in procession through the town. The Roman Catholics have their church to lodge their idols in, and even the Mohammedans are not discountenanced. But the presbyterian they [officials] howl at.[85]

Churches were an important centre of business life, and church-going, like club membership and sports, seems to have been insisted upon by senior partners in the managing agency firms by the 1880s.[86]

Business associations, like religious life in Calcutta, were also fragmented. The Chambers of Commerce were the preserve of those involved in 'mercantile' business, or the managing agency and financial houses; the Trades Associations were for those engaged in 'trade', by which was meant those in retail businesses. The Calcutta Trades Association was an older and initially more vigorous body than the Bengal Chamber of Commerce, probably because it included the large 'Country-born' British community that dominated much of Calcutta's retail trade; it was even granted representation on the Calcutta Corporation.[87] However, between the 1850s and 1880s the influence of European tradesmen declined as many either joined the merchant class or merged with the Eurasian community.[88] By contrast the influence of the managing agency houses organized within the Bengal Chamber of Commerce grew substantially.[89]

The Calcutta Chamber of Commerce, originally founded in the 1830s in order to compile annual statements of stocks and imports by its member firms, was reconstituted as the Bengal Chamber in the 1850s, by which time the mercantile community had become much larger.[90] By the 1880s observers were agreed that the 'mercantile' element in Calcutta society, through the Bengal Chamber, had become the dominant influence in non-official society. As one contemporary wrote in 1904: 'There was a time when a number of brilliant advocates of the supreme court controlled and directed the current of feelings . . . that mantle is now worn by the Bengal Chamber of Commerce.'[91] By

85 Firminger, *Thacker's Guide to Calcutta*, 365.

86 Massey, *Recollections*, 23–8; interview with R. Wright by M. Misra.

87 On the history of the Calcutta Trades Association see Renford, *Non-Official British in India*, 147–50.

88 Cotton, *Indian and Home Memories*, 109–13.

89 Pearson, *Eastern Interlude*, 216.

90 Tyson, *The Bengal Chamber of Commerce and Industry*, 34 ff.

91 Cotton, *New India*, 204.

the 1860s the Government of India had begun formally to seek the Chamber's advice on commercial matters. However, the Bengal Chamber was neither an harmonious nor a democratic institution; it was dominated by the fifteen great managing agency houses, of which Andrew Yule, Bird and Co., and Jardine Skinner were the most influential. Voting rights were directly related to the size of the subscription paid by a company and for this reason the chamber committee and presidency were dominated exclusively by the senior partners of the largest firms. Moreover, the diverse nature of interests represented by the chamber meant that it was often difficult to reach accord on policy matters. Possibly for this reason a variety of other industrial and commercial associations developed, of which the most important were the Indian Mining Association and the Indian Jute Mill Association. Again, both of these bodies were dominated by the largest agency houses. European chambers of commerce also developed elsewhere in India, most notably in Bombay, Madras, Kanpur, and Coimbatore.

The large number of business organizations ensured that it was often difficult for British business in India to reach agreement on matters of economic and commercial policy. An all-India chamber, the Associated Chambers of Commerce and Industry of India (ASSOCHAM), was formed to co-ordinate business opinion in the wake of the 1919 political reforms. Even then, however, the Bengal Chamber remained by far the most influential voice within it, a position which was resented by the other chambers.[92]

Perhaps the institutions in which social distinctions were most strictly enforced were the sporting and social clubs which lay at the centre of social life in colonial Calcutta. The first clubs to be founded, such as the Bengal Jockey Club, established in 1801, were purely sporting societies. While these continued to be important social centres throughout the colonial period, they were later eclipsed by the social clubs, of which one of the first was the Bengal Club of Calcutta founded in 1827. Equivalents were soon established elsewhere in India, including the Madras Club in 1831 and Byculla

[92] The crisis in relations between the Bengal Chamber and those of other major commercial centres, notably Bombay and Madras, over British business's response to the political and economic upheavals of 1930–1, is chronicled in G. Tyson, *Danger in India* (Calcutta, 1932), 86 ff. For other examples of conflict see Sullivan, *One Hundred Years of Bombay*, 153 ff., 161, and Tirumalai, *Voice of Enterprise*, 131, 140 f., 150.

Club in Bombay in 1833.[93] These clubs were originally intended to provide reasonably priced accommodation for their members, as Europeans did not have private residential and dining quarters until the 1850s and 1860s. However, by the later part of the century the clubs had become much more akin to gentlemen's clubs in London. As Robert Pearson, one of the first historians of Calcutta society, noted:

> it was justifiable to speak of a definite 'Clubland' in Calcutta. Comprising a number of large, depressing lounges and smoking rooms, filled with heavy leather and cane backed chairs, copies of the *Spectator*, *Punch*, *The Tatler* and *The Field* . . .[94]

By the 1880s other varieties of club catering to less elevated social groups emerged. For example, several popular clubs were created to provide light entertainment in a city with few theatres or music halls. One such was the New Club of 1881–4, which specialized in amateur and later professional theatricals.[95]

One observer of pre-First World War Calcutta considered that the prime purpose of the clubs was to separate British from Indians and prevent the British from 'becoming oriental';[96] clubs certainly seem to have contributed to their members' sense of racial solidarity, and with the exception of the Willingdon Club in Bombay, all the British clubs were exclusively 'white' until the 1940s. However, significant though this racial exclusivity was, clubs were probably even more effective in institutionalizing the social divisions within European society. The Bengal Club was the most exclusive in Calcutta: its membership was restricted to top officials and the senior partners of the most established managing agency houses. One observer noted that it was:

> one of the most cliquey places in India. They dislike the society of foreigners, adventurers, upstarts and natives. You must convince Calcutta society that you belong to none of those undesirable classes (unless you are very eminent in them of course), before you can cross the threshold of the Bengal Club, even as a guest.[97]

[93] Cotton, *New India*, 733–56; Massey, *Recollections*, 87–100; Tirumalai, *Voice of Enterprise*, 92; H. R. Pankridge, *A Short History of the Bengal Club* (Calcutta, 1927); R. I. MacAlpine, *The Bengal Club, 1927–1970* (Calcutta, 1970); S. Shepherd, *The Byculla Club* (Bombay, 1933).

[94] Pearson, *Eastern Interlude*, 225.

[95] Massey, *Recollections*, 5 ff.

[96] N. Carrington, IOLR, MSS Eur. C. 392, 191.

[97] Lowell Thomas, quoted in Hobbs, *John Barleycorn*, 19.

Assistants in the managing agencies would join the United Services Club, founded in 1845 for an official membership, but forced for financial reasons to admit members of the business community. However, some businessmen still preferred their own company and in 1903 the Limited Liability Club was founded. The name did not preclude the admission of men from the the managing agency partnership firms. Another popular middle-ranking club was the Saturday Club, which was founded by a civilian judge in 1872 to provide 'small and earlies' for the élite of Calcutta society who found the public assemblies 'too common'.[98]

By the 1880s business élites had become sufficiently self-confident to establish their own clubs. One such was the Unceremonials, set up in 1888 by a small group of young assistants from the most prestigious managing agency houses. It was originally a purely social and dining club whose original charter stated that it should be 'the main function of our community to hold entertainments free from ceremony and conventionality'. It later transformed itself into the Calcutta Tent Club, whose main principle was to hunt hogs together 'in a sportsman-like manner'.[99]

A similar hierarchy of clubs existed in other South Asian colonial cities. Those in Rangoon were typical: the Pigu Club was for the 'top brass' (officials) and *burra sahibs* (senior businessmen, literally 'big sirs'), the Gymkhana for young assistants and professionals; the Boat Club was for engineers and shop assistants and the Railway Institute for the army ranks and Eurasians.[100] During the Second World War the intense snobbery of the clubs was such that it was only under threat of government coercion that many of them would open their doors to the British 'other ranks' in the army stationed in India.[101]

Businessmen, the Civil Service, and Social Status

Clearly, British society at home was characterized by social distinctions, but colonial society seems to have been peculiar in the extent of its internal stratification.[102] It is unclear why this should have been the case, but it is plausible to relate it to the changes in the way the state in

[98] Massey, *Recollections*, 4–6.

[99] Papers of the Calcutta Tent Club, 1888–1933, IOLR, MSS Eur. C. 335.

[100] J. T. Gillison, interview, IOLR, MSS Eur. T.R. 94 (1983).

[101] W. H. Diamond, interview, IOLR, MSS Eur. T. 93 (1983).

[102] For status differences within British society, see H. Perkin, *The Rise of Professional Society: England Since 1880* (London, 1990), 78–101.

India exerted its authority and legitimized itself in the mid-nineteenth century. As has often been noted, this period witnessed the conscious attempt by the state to enhance its authority. The strategy which it adopted was in many way contradictory:[103] firstly, it emphasized the bureaucratic and professional basis of the state's authority; secondly, it sought to legitimize itself by more conservative appeals to 'traditional' authority. The origins of the first strategy can be found in the new concern with good and efficient administration in Britain, but it gained particular influence after the Indian Mutiny, which had discredited and ended the rule of the East India Company. The Company's failure to distinguish between public and private spheres was widely thought to have led to corruption and undermined British rule.[104] The state, therefore, even before the Mutiny and the end of Company rule in the following year, attempted to establish itself as an incorruptible élite, separate from and hostile to attempts to exert business influence; so, for instance, it initiated competitive examinations for entry into the ICS in 1855.[105] It is generally agreed that this strategy contributed both to the increasing bureaucratization of the state, to the creation of hierarchies within it, and to the increasing separation between official and non-official communities in India.[106]

The second strategy of legitimization also contributed to the creation of a hierarchical European society in India, although it advocated a hierarchy based on very different values to the first. The experience of the Mutiny helped to undermine the belief that Western forms of governance were suitable for India, and reinforced the position of those who argued that Indians would only respond to 'oriental' forms of government, which allegedly valued hierarchy, pomp, and other such traditional manifestations of authority. This view was associated with attempts by the British state to find new collaborators among traditional élites, such as the Indian princes; the notion of Indian society as a hierarchical one, rigidly ordered by caste and community, helped to legitimize the position of these new collaborators. Conservative viceroys, such as Lytton (1876–80) and Curzon (1899–1905), were

103 For this point, T. Metcalf, *Imperial Ideologies* (Cambridge, 1995), ch. 5.

104 Cain and Hopkins, *British Imperialism*, i. 326–8; J. Brown, *Modern India* (Oxford, 1994), 96–7.

105 See B. Spangenburg, *British Bureaucracy in India: Status, Policy and the ICS in the Late Nineteenth Century* (New Delhi, 1976), 19–20. For the new emphasis on administrative efficiency and the criticism of patronage in government, see J. M. Bourne, *Patronage and Society in Nineteenth Century England* (Cambridge, 1986), 45–6.

106 See Cain and Hopkins, *British Imperialism*, i. 326.

prominent advocates of this approach to government and society in India; during the viceroyalty of Lytton, a romantic medievalist who had been a member of Disraeli's Young England group, it became common in official circles to compare Indian society with the feudal societies of medieval Europe. Lytton used the 1877 Imperial Assemblage, when Victoria was proclaimed Empress of India, to present the Indian nobility as a European feudal nobility, with coats of arms, orders of knighthood, and declarations of allegiance to the Empress, 'its feudal head'.[107] The imperial state increasingly used ritual to legitimize its rule, and at all ceremonies the social gradations within European society were strictly observed, with officials always taking precedence over other members of the British community.[108] It is clear that most colonial officials did not enjoy such social pre-eminence when on leave in Britain.[109]

There was clearly a tension between these two approaches throughout the period before 1914, but by the 1890s it is clear that the 'orientalist' view was becoming less influential in official circles and a more professional, bureaucratic view of governance was in the ascendant. This became associated with a more liberal view, that anybody, of whatever race, if professionally trained could exercise authority. So, in 1883 the viceroy Lord Ripon and his law officer, Courtney Ilbert, proposed that Indians and British officials who had similar qualifications had to be given equal powers, even if that meant that Indian magistrates had authority in certain cases over Europeans.[110] Similarly, the Public Service Commission of 1886–7 sought to promote Indian employment in the civil service.[111] Professional values also increasingly determined the ICS's recruitment of British staff. While the ICS still expected its officials to have various qualities which were associated

[107] See Metcalf, *Imperial Ideologies*, 75–7; B. Cohn, 'Representing Authority in Victorian India', in E. Hobsbawm and T. Ranger (eds.), *The Invention of Tradition* (Cambridge, 1983), 189–207.

[108] Ballhatchet, *Race, Sex and Class under the Raj*, 8.

[109] Spangenburg, *British Bureaucracy in India*, 353–4.

[110] For more detailed histories of the Ilbert controversy see the following: E. Hirschman, *White Mutiny: The Ilbert Bill Crisis in India and the Genesis of the Indian National Congress* (Delhi, 1980); N. S. Bose, *Racism and Indian Nationalism* (Delhi, 1981); S. Gopal, *The Viceroyalty of Lord Ripon, 1880–1884* (London, 1953); C. Dobbin, 'The Ilbert Bill: A Study of Anglo-Indian Opinion in India, 1883', *Historical Studies Australia and New Zealand*, 13: 45 (Oct. 1965); M. Sinha, *Colonial Masculinity* (Manchester, 1995), introduction.

[111] B. Spangenburg, (ed.), *British Attitudes Towards the Employment of Indians in the Civil Service: Report of the Public Service Commission (1886–7)* (Delhi, 1977), introduction.

with a particular social background rather than with intellectual attainment, such as 'character' and leadership qualities, between 1860 and 1874 three-quarters of recruits to the ICS came from professional backgrounds, while only 10 per cent came from the aristocracy or landed gentry.[112] After the Montagu-Chelmsford Reforms of 1919, which placed even greater emphasis on purely academic criteria in recruitment, the ICS recruited officials from an even more lowly grammar school background.[113]

Senior businessmen, however, remained committed to a more conservative, non-professional conception of social hierarchy. This attitude was likely given their self-image as merchant adventurers and the hostility to bureaucratic values in the organization of their firms which has been described. During this period, they clung to an ethos which considered 'character' to be pre-eminent in social and business life. The concept of character in the nineteenth century has been the subject of a great deal of scholarly attention, and it is difficult to define owing to its protean nature.[114] However, senior businessmen tended to use the term to refer to a set of virtues which included reliability, dutifulness, leadership qualities, and the ability to deal with difficult circumstances with a cool head.[115] While these qualities were not necessarily connected with ideas of class, in practice they were clearly associated with high social status within British society and a public school education; they were contrasted with intellect and professional attainment which could be acquired irrespective of social background.

Businessmen's concern with character rather than intellect was nowhere more evident than during debates about reform of the Indian Civil Service. Many businessmen believed that the nature of the ICS

[112] J. M. Compton, 'Open Competition in the Indian Civil Service, 1854–1876', *EHR* 83 (1968), 265–84; C. J. Dewey, 'The Making of an English Ruling Caste: The Indian Civil Service in the Era of Competitive Examination', *EHR* 88 (1973).

[113] D. C. Potter, *India's Political Administrators, 1919–1983* (Oxford, 1986), 57–8, 64.

[114] S. Collini, *Public Moralists: Political Thought and Intellectual Life in Britain, 1850–1930* (Oxford, 1993), 91–118; G. Stedman Jones, *Outcast London: A Study in the Relationship between Classes in Victorian Society* (Oxford, 1971), part III; J. A. Mangan (ed.), *Making Imperial Mentalities: Socialisation and British Imperialism* (Manchester, 1990), introduction; B. Haley, *The Healthy Body and Victorian Culture* (Cambridge, Mass., 1978); J. R. de S. Honey, *Tom Brown's Universe* (London, 1977); J. A. Mangan, *Athleticism in the Victorian and Edwardian Public School: The Emergence and Consolidation of An Educational Ideology* (Cambridge, 1981).

[115] C. Dewey has attempted to describe the notions of character prevalent in the ICS. C. Dewey, *Anglo-Indian Attitudes: The Mind of the Indian Civil Service* (London, 1993), 215–16.

would be undermined once the intellectual and academic qualities of recruits were accorded greater importance than their 'character'. So, for instance, W. D. Braithwaite (partner in a Calcutta managing agency firm and president of the European Association), told the 1913 Public Services Commission, which had been appointed to report on ICS recruitment, 'I consider that in any Eastern country personality must have a great deal more effect on the welfare of the country than any [administrative] machinery can possibly have'.[116] Businessmen argued that the introduction of competitive examination as the main entry route was thought to be particularly deleterious precisely because it would produce recruits of deficient character.

Initially their concerns focused upon the appointment of academically able Indians to the ICS. As one non-official critic of competitive examinations wrote in 1887:

> Government has made a mistake by entrusting administration solely to educated youths ignoring the claims of classes and races who owing to their possession of character have refused to be crammed [for examinations]. By this process our government is being weakened and deprived of the natural masculine strength it might have had.[117]

Similarly, the memorandum of opinion sent by the Bengal Chamber of Commerce and signed by thirty-four individual managing agency firms, declared that:

> The fabric of administration which England has reared in India has induced peace, order, liberty and justice out of chaos and anarchy . . . we believe the secret of its success to lie in the English character of the controlling and supervising power . . . as practical men [we cannot] believe that any scheme which will alter the essential British character of the administration can ever be seriously contemplated by an English government.[118]

However, by the time of the 1913 Public Services Commission, the main issue for businessmen was the effect of selection by academic examination on British recruits. The president of the Bengal Chamber of Commerce declared that:

[116] Oral evidence of W. D. Braithwaite, Appendix to the *Report of the Indian Public Services Commission of 1913*, vol. iii. 240; see also ibid. 256 (evidence of J. C. Shorrock).

[117] F. H. Barrow, 'Education and Hinduism in Bengal', *Calcutta Review*, 87: 173 (July 1888), 25–6.

[118] Memorandum dated 8 Mar. 1887, from the committee of the Bengal Chamber of Commerce, *Proceedings of the Public Services Commission*, vol. vi, sect. iii, no. 1, p. 1 (Calcutta, 1887).

The present system of recruitment appears to me faulty because it attaches too much importance to book-learning . . . and no allowance had been made for the possession in a candidate of characteristics which would in time go to make a successful administrator . . . I would relegate scholastic efficiency to a less prominent position, provided a candidate showed himself to be a man possessing plenty of common sense.[119]

All of the witnesses from the business community stressed the undesirability of relying on intellect, rather than character, in selecting ICS trainees. W. D. Braithwaite criticized the exam for making 'scholarship the only criterion of fitness while character, physique, manner, social qualifications . . . have been ignored'.[120] He explained,

When I was at Cambridge it struck me that the men who were going in for the ICS were of the clever, smug order [rather than] the men who were most [involved] in the life of the college, the more popular and more social members who would be of more service here.[121]

Most business witnesses to the 1913 Public Services Commission agreed that physical bearing and an aptitude for athletics were better indicators of good character and suitability as an administrator than was academic ability. Braithwaite suggested that 'the best type of British manhood is the type that does take an interest in athletics and thereby improves his physique'[122] and N. McLeod proposed that, instead of choosing men 'who are merely a bundle of bones and book-learning',[123] the selectors should,

give preference to those men whose physical stature and appearance would be in keeping with the dignified and important positions they are likely to be called on to fill in India, because there is after all in the administration of Eastern countries a great deal to be said for the man who looks the part.[124]

However, in addition to a good physique and athleticism, it is clear that many of these businessmen associated character with social background and they objected to the fact that since the introduction of open examination to the ICS, the social origins of British recruits had become broader. A director of the Bank of Bengal commented:

[119] Appendix to the *Report of the Indian Public Services Commission, 1913*, iii. 443, evidence of N. C. McLeod; see also evidence of A. W. Binning, ibid. iv. 134.
[120] Ibid., iii. 233, evidence of W. D. Braithwaite.
[121] Ibid., iii. 237, evidence of W. D. Braithwaite.
[122] Ibid., iii. 246, evidence of W. D. Braithwaite.
[123] Ibid., iii. 445 ff., evidence of W. D. Braithwaite.
[124] Ibid., iii. 443, evidence of N. C. McLeod.

I do not think they are altogether drawing recruits for the ICS from the right class of boys in England. I think that you want boys who have been brought up from childhood in families where there have been for two or three generations education and culture; where they have been taught to respect subordinates and to show consideration for them and where they have had the advantage of considerable family discipline and school discipline from an early age . . . I think that you would have to draw them [recruits] from boys of a certain class.[125]

Ramsay MacDonald, one of the members of the Commission, objected to the assumption behind these statements, commenting, 'your selecting standard would be very largely a class standard not an individual one . . . so that people who come from the class that I come from would be cut out'; Shorrock replied, 'I think it is very desirable that it should be a class standard'.[126]

In view of the inability of the examination system to discriminate successfully for character, most business witnesses urged a return to selection by nomination. Some proposed that committees of businessmen and officials should be formed to make recommendations, while others recommended the approach of the British navy, 'there is no written examination. The boy is examined [orally] and passed as a gentleman, that is to say as one likely to behave well to the people he is going to rule or employ.'[127] Similarly, E. J. Holberton, of the Bombay-Burma Trading Company, suggested that the ICS should follow the example of businessmen like himself and look for 'nice men whose appearance and manners we like'.[128]

'Character', as opposed to intellectual ability, was therefore particularly valued in recruitment to the managing agencies themselves. So, for instance, J. S. Skinner, senior partner of the Jardine Skinner managing agency house, wrote in 1860 of one assistant who was being considered for promotion:

[He is] an honourable and conscientious man of business, painstaking and plodding, but *not* clever or apt in initiating measures. This certainly when he comes to be head of house is a disqualification, but not in our case sufficient to weigh against the positive advantages of being a gentleman, respectable and respected, well-known to most of us.[129]

[125] Appendix to the *Report of the Indian Public Services Commission, 1913*, iii. 253 ff., evidence of J. C. Shorrock.
[126] Ibid., iii. 254, evidence of J. C. Shorrock.
[127] Ibid., iv. 187 and 191, evidence of E. J. Holberton.
[128] Ibid., iv. 192, evidence of E. J. Holberton.
[129] Memorandum by J. S. Skinner, MSS Jardine Skinner, Green file 4, 3 Mar. 1860.

Henry Neville Gladstone, son of the Prime Minister and the senior partner of Gillanders Arbuthnot, explicitly defended the use of character rather than intellectual attainment as a criterion for recruitment. In a confidential memorandum on the firm's recruitment policy in 1909, he wrote:

An important question arises in regard to the most suitable type of assistant. For the purpose of distinction I will divide them into 2 classes: 1. A class, by which I mean people whose education and birth fit them in the main for superior professions, such as the civil service, ordination or the bar. 2. B class, whose qualifications are limited to manners and character . . . I have for some time expressed the view that recruitment from class A is a mistake, and that we should now concentrate on recruiting our staff from class B. The ground is not one of economy, but that men of the A type are bound to have more ambition and higher aspirations than those of the B class and therefore often become dissatisfied and leave us when we are unable to meet their natural aspirations.[130]

One extreme example of the kind of employee which this approach tended to favour is provided by the case of William Wickham, a nephew of Henry Gladstone, who, in a letter to his uncle, frankly described his qualities:

I failed to get a scholarship at Winchester . . . failed to get a scholarship at Oxford. Got a second in Mods and a third in Greats. Failed twice for the civil service and after being taken into business get kicked out. It looks as though roughing it in Canada or that hope of the destitute and the failure tea planting, ought to be the last resort . . . I don't feel much like going straight into politics as you suggest. Is Egypt any use or is that too full up?[131]

Business's continuing attachment to the values of character and resistance to the professionalization which can be seen in other areas of life can be found in Britain during this period.[132] However, in India these values perhaps continued for longer because they could be justified by the 'orientalist' ideology of social stratification and difference described above. Many argued that 'character' was particularly important in India because Indians respected the skills and social cachet associated with it rather than intellectual ability. So, William Mackay, a partner of Finlay's managing agency, explained why those

[130] Report by H. N. Gladstone on his visit to Calcutta, Sept. 1909, MSS OG, file 2724, pp. 4–5.

[131] W. Wickham to H. N. Gladstone, 30 Mar. 1904, MSS OG, file 2592.

[132] Perkin, *Rise of Professional Society*, 299.

with a public school education were preferred as partners to 'those of no real background':

> Nobody in India is quicker to spot what we might call *jat* [literally a sub-caste], meaning that birth and breeding are picked out immediately by even the lowest worker and they respected that very much indeed. On the whole I would say that boys with good family background did better: they had more discipline and leadership.[133]

Similarly Wilfred Blunt, the correspondent for *The Times*, wrote in 1884 that:

> The Englishmen who have succeeded most permanently in India have rarely been the most brilliant; moral qualities go further: truth, courage, simplicity, disinterestedness and good faith. These command respect, and above all a solid foundation of religious belief . . . Such qualities the natives of India acknowledge more than any amount of mere cleverness . . . It is hardly sufficiently understood in England how large a part personal integrity plays in acquiring the sympathy of orientals for their rulers.[134]

It is also plausible to argue that concern for high status and social prestige was rational in the circumstances in which the managing agents found themselves. In an environment where capital was scarce and investment was risky, the good name and high repute of a company was an important means of attracting capital. The Indian Industrial Commission of 1916–18 recognized this, commenting:

> We are impressed by the strong evidence of the high financial prestige possessed by the better class of agency firms and of the readiness of the investing public to follow their lead.[135]

Hence businessmen were likely to adhere to social codes very strictly because serious penalties might be incurred by those who breached them. In the context of colonial Calcutta, these conventions, reinforced by 'orientalist' ideologies of rule, were particularly inflexible and unforgiving.

Businessmen were so eager to attract men of this character to work in the East that they were willing to pay higher salaries than was given for comparable commercial assistants in Britain. Shorrock, a director of the Bank of Bengal, told the Public Services Commission of 1913 that

[133] W. Mackay, interview, IOLR, MSS Eur. R. 166 (1983). For a similar view, see H. Bannerman, IOLR, MSS Eur. R.T. 80/1–2.

[134] Blunt, *Ideas About India*, 58–60.

[135] *Report of the Indian Industrial Commission, 1916–1918*, 9. For similar comments, see P. Lokanathan, *Industrial Organisation in India* (London, 1935), 163, 180.

British firms in India sought a 'better class' of young man than would have been the case in England and that they were able to employ public school men in commercial work who would not have been attracted to it at home. He agreed with '[the] general opinion . . . that you pay £300 p.a. for the same article that they get in London for £75–100 to begin with'.[136]

Businessmen, therefore, seem to have taken the emphasis on a strict social hierarchy based on social origins and 'character' far more seriously and for longer than the state, which had originally been decisive in propagating these 'orientalist' ideas of authority. This helps to explain why the managing agencies were so concerned with regulating the private lives of their assistants. Partners of the managing agencies were particularly insistent that their own young assistants should maintain a standard of living in keeping with their high status, even though their salaries were often modest.[137] It was therefore common for senior partners to police the most personal aspects of their junior assistants' lives, and the contracts which junior assistants signed when they first went out to India were heavily weighted towards the interests of the firm.[138] New recruits had to undertake to return to Britain if the agency decided that they were unsuitable for employment; there was no question that a young European would be allowed to stay in India if he was unemployed. As well as detailing the salary and duties of the young assistant, contracts of employment insisted on the company's right to refuse permission for the recruit to marry.[139] Permission was usually withheld until the assistant had attained a level of income that was regarded as sufficient to maintain a respectable standard of married life; one assistant remembered: 'The community there was worried that a man marrying too early, without sufficient resources, would be letting the side down *vis a vis* appearances.'[140] The

[136] J. C. Shorrock, *Report of the Indian Public Services Commission 1913*, Appendix, iii. 252.

[137] Assistants often had to have private means during their early days in India if they were to live comfortably. Thomas, *Gladstone of Hawarden*, 63.

[138] W. H. Diamond, who went out to India as an assistant during the First World War, recalled being advised by a British solicitor not to sign a contract of employment because it was so weighted in favour of his employers' rather than his own interests. W. H. Diamond, IOLR, MSS Eur. T. 93.

[139] E. J. Holberton, a partner in a managing agency firm with interests in Burma, explained: 'We are very particular about him [a new commercial assistant] not being [married]'. See Appendix to the *Report of the Indian Public Services Commission of 1913*, iv. 189, evidence of E. J. Holberton.

[140] A. G. Sloan, IOLR, MSS Eur. T. 124/2 (1983).

salary which was regarded as sufficient to support a wife was often not reached until assistants were in their late thirties, and these rules became a major source of resentment, particularly as they were much less rigorously enforced in the ICS or later by multinational companies.[141] Nevertheless, such stipulations were maintained until the 1940s.

Firms also attempted to control the social and leisure activities of their young recruits. Pressure was put on them to join particular clubs and one new recruit to an agency house in the early 1930s recalled that he was given a list of clubs the firm expected him to join.[142] They were also expected to play sports, and new assistants were strongly encouraged to join the military auxiliary, such as the Calcutta Light Horse.[143] The cost of this kind of lifestyle was usually much higher than the young assistant anticipated. He was often expected to own his own horse, and the 'chummeries' or joint bachelor accommodation, in which most young bachelors were encouraged to live, were customarily staffed by a large retinue of servants for each young assistant. Membership of clubs was also expensive. Henry Gladstone, for example, who first went out to Calcutta in 1874, found life there 'monstrously dear', even though he received an allowance from his father of £200 per annum in addition to his assistant's salary of £360 per annum.[144] The problem of indebtedness among young Europeans was a recurrent theme in contemporary writing and memoirs.[145] One employee of the Army and Navy Stores recalled that credit was always available to the assistants of managing agency firms because it was known that the company would pay if one of its employees was to become seriously embarrassed. When this did happen, which was not

[141] A. G. Sloan originally joined the managing agency house of Shaw Wallace and Co., just before the First World War, but, disliking the terms of employment, left to join the new multinational, Burmah-Shell. See A. G. Sloan, IOLR, MSS Eur. T. 124/2; interestingly, business witnesses to the 1913 Public Services Commission considered that the salaries of ICS officers should be increased so that they might fund a more high-status style of living, see W. D. Braithwaite, Appendix to the *Report of the Indian Public Services Commission of 1913*, 239.

[142] W. H. Diamond, IOLR, MSS Eur. T. 93.

[143] Jenkins, *Merchant Prince*, 78 f. For the social exclusiveness and club life associated with volunteer regiments in India see J. H. Rivett-Carnac, *Many Memories of Life in India: At Home and Abroad* (London, 1910), 372; L. L. Ashby and R. Whately, *My India* (London, 1938), 98.

[144] I. Thomas, *Gladstone of Hawarden*, 63.

[145] Cotton, *Indian and Home Memories*, 120 f.; Massey, *Recollections*, 87 f. See also the complaint of one of Gillanders Arbuthnot's assistants about inadequate income and his consequent indebtedness, S. N. Potter to H. N. Gladstone, MSS OG, file 2592, 9 Mar. 1903.

infrequently, the miscreant was dismissed and immediately shipped home.[146]

The partners' attitudes to technicians were also in part determined by their desire to maintain their status. As has been seen, technicians were mistrusted because they posed a challenge to the control of the partners, but they were also discriminated against in recruitment and promotion because they did not have the social backgrounds and character which were appropriate for senior businessmen. As one senior partner remembered:

> They would recruit for the Head Office separately from the technical side. The staff in the Head Office could expect to rise gradually in the scales in the hope of becoming a partner. Those in the mills and factories would start as technicians and could hope to become assistant managers or superintendents; much the same applied to the tea plantations . . . The Head Office people would perhaps consider they were superior in some way as their prospects were better than those in the fields, factories and mills and living in Calcutta they would meet the seniors more often at work and socially.[147]

Therefore, a combination of senior businessmen's personal and anti-bureaucratic conception of business, combined with the peculiarly stratified nature of colonial society which was legitimized by a powerful 'oriental' conception of authority, ensured that business became one of the most conservative groups within European society in India; it was certainly more conservative than the state. These attitudes affected senior businessmen's relations with all groups with which they came into contact. Within the firm, they became isolated from technicians and those who had specialized knowledge of industry and the Indian economy. They were also isolated from, and had increasingly poor relations with, emerging Indian business groups.

British and Indian Business

There is considerable evidence to suggest that relations between British and indigenous business communities changed over the course of the nineteenth century. Until the middle of the century social relations between Britons and Indians were sufficiently close to allow business alliances to be formed and before the 1830s relations between British merchants and Indian *banians*, or compradors, were essentially

[146] J. Williamson, interview, IOLR, MSS Eur. R.T. 131/1–2 (1983).
[147] H. Bannerman, IOLR, MSS Eur. T. 80.

partnerships.[148] The *banian* was expected to provide linguistic skills and knowledge of local markets, conditions, and the creditworthiness of other Indian merchants. Most importantly, he provided the British firm with capital. Young merchants, newly arrived in India, often became indebted personally to *banians* for the cost of setting up their domestic establishments. In many respects the *banian* was in reality the senior partner in these arrangements, making the commercial decisions and merely paying to use the name of the British merchant. With the arrival of the agency houses in India in the early nineteenth century the *banians* still had an important role to play, but once the British independent traders had ceased to be wholly dependent on them for capital and market knowledge, they began to enter into formal partnerships with Europeans. The most famous of these were the managing agency houses of Carr Tagore and Rustomjee Turner, founded in 1834 and 1827 respectively. A large number of other joint Bengali–British partnerships was established between 1834 and 1847.[149]

These partnerships all collapsed during the speculative crises of the later 1840s.[150] There were continuing links between British and Indian businessmen, and the *banians* continued to be an important source of capital and connections with the internal economy, but the relationship changed.[151] As British political and military power became more entrenched in India, British commerce was increasingly able to dictate the terms of its partnership with Indian businessmen.[152] *Banians* were not given formal recognition as partners or even as directors of

[148] P. Marshall, 'The Banias and the British in Calcutta', in B. B. Kling and M. N. Pearson (eds.), *The Age of Partnership: Europeans in Asia Before Dominion* (Honolulu, 1979), 201; D. Basu, 'The Banian and the British in Calcutta, 1800–1850s', *Bengal Past and Present*, 92 (1973), 157–70.

[149] D. Tripathi and M. Mehta, *Business Houses in Western India: A Study in Entrepreneurial Response, 1850–1956* (London, 1990), 20. For the relationship between British agency houses and Indian merchants and businessmen in the first half of the nineteenth century see the following: N. K. Sinha, *The Economic History of Bengal, 1793–1848*, iii (Calcutta, 1970); A. Tripathi, *Trade and Finance in the Bengal Presidency* (2nd edn., Calcutta, 1979); K. N. Chaudhuri (ed.), *The Economic Development of India Under the East India Company, 1814–1858* (Cambridge, 1978); S. B. Singh, *European Agency Houses in Bengal* (Calcutta, 1966).

[150] Chapman, *Merchant Enterprise*, 113.

[151] For the importance of the *banian*, see C. P. Bramble, interview, IOLR, MSS Eur. R.T. 143/1–2; A. Guha, 'The Comprador Role of the Parsi Seths, 1750–1850', *Economic and Political Weekly*, Review of Management, 28 Nov. 1972; O. Goswami, '*Sahibs*, *Babus* and *Banias*: Changes in the Industrial Control in Eastern India', *Journal of Asian Studies*, 48: 2 (1989), 289–309; T. Timberg, 'Three Types of Marwari Firm', *IESHR* 10 (1973), both reprinted in R. K. Ray (ed.), *Entrepreneurship and Industry in India, 1800–1947* (Bombay, 1992).

[152] Marshall, '*The Banias and the British in Calcutta*', 207.

managed companies until after the First World War, when, as will be seen, their financial power had become so great that they were able to force their way on to company boards.[153]

In the wider business environment also, exclusivity and distance were increasingly emphasized. In Bombay, where the British were always a minority in the modern business sector, the Bombay Chamber of Commerce was always racially mixed, but became increasingly less so.[154] In Calcutta the division between the two communities was much wider. In the 1840s the Bengal Chamber of Commerce had a few Indian members but by the 1880s Indians were reduced to associate membership only. In the 1860s Indian trading groups began to establish their own trade associations and chambers of commerce, and in the 1920s two entirely separate 'peak' organizations were formed.[155] As will be seen in Chapter 5, the increasing separation between the British and Indian business community had damaging consequences for the managing agency houses.

In part, the increasing distance between British and Indian business was the consequence of changes within the Indian business community itself. In the last quarter of the nineteenth century Bengali entrepreneurs, with their relatively westernized lifestyles, were eclipsed by the extraordinarily successful Marwari community.[156] The Marwaris, unlike the early Bengali partners of the British or the Parsis, who dominated the early development of the textile industry in Bombay, were a highly traditional community. They adhered strongly to their caste associations, marriage rules, and religious and cultural codes.[157] They therefore tended to be categorized as a 'backward' and untrustworthy group within the perceived racial and ethnic hierarchies of the

[153] See Chapter 2.

[154] A number of Indian businessmen were among the founder members of the Bombay Chamber of Commerce in 1836, but relations between the business communities deteriorated in the 1880s and 1890s and a number of autonomous Indian business associations were established. See Sullivan, *One Hundred Years of Bombay*, 7, 10, 103 f; G. Piramal, 'Entrepreneurs and Political Awareness: A Study of Bombay's Business Groups', in D. Tripathi (ed.), *Business and Politics in India: A Historical Perspective* (Delhi, 1991), 161.

[155] British business established the All-India Associated Chambers of Commerce and Industry of India and Ceylon in 1920. Its Indian counterpart, the Federation of Indian Chambers of Commerce and Industry, was created in 1927. See C. Markovits, *Indian Business and Nationalist Politics 1931–39: The Indigenous Capitalist Class and the Rise of the Congress Party* (Cambridge, 1985), 21.

[156] O. Goswami, 'Then Came the Marwaris: Some Aspects of the Changes in the Pattern of Industrial Control in Eastern India', *IESHR* 22: 3 (1985), 222–49.

[157] S. Sarkar, *Modern India: 1885–1947* (2nd edn., London, 1989), 39, 174.

late nineteenth-century *Raj*.[158] British attitudes to Indian businessmen were conditioned by prevailing views of the essential characteristics of particular Indian groups: Marwaris were considered to be suitable only as *banians*, Bengalis as accountants and clerks, and Eurasians as secretaries and sometimes as up-country salesmen. Bengalis were thought to be particularly unsuited to positions of authority. As one partner in Balmer Lawrie commented: 'Calcutta did not have the Parsi community that you had in Bombay. The Bengali has no aptitude for business.'[159]

The failure of British businessmen to forge closer relations with Indian business was undoubtedly also connected with the problems of reconciling very different commercial practices and ethics. British businessmen did not understand the conventions which governed much Indian business; the fundamental institution of much Indian business, the joint Hindu family firm, presented particular problems because it was difficult to establish clear divisions between family and firm and hence to identify liability for contract and debt.[160] The obstacles to the reconciliation of European and Indian business practice are shown by the failure to integrate the traditional Indian commercial bill of exchange, the *hundi*, into the European banking system; again, Europeans were concerned that it would be difficult to establish ultimate liability for payment.[161]

However, British law and institutions were becoming more influential from the late nineteenth century, while Indian and British business communities were becoming more isolated from one

[158] For more details of business perceptions of race, see Chapter 5.

[159] O. Jenkins, interview, IOLR, MSS Eur. R.T. 100 and R. 140 (1983).

[160] British businessmen tried on various occasions to have Indian partnership law amended in such a way as to reduce these uncertainties. See, for example, the evidence of A. F. C. Forbes to the Indian Industrial Commission, *Report of the Indian Industrial Commission, 1916–1918*, Minutes of Evidence, ii. 163. For general background on the problems of reconciling Asian and European commercial practice see C. Bayly, *Rulers, Townsmen and Bazaars: North Indian Society in the Age of British Expansion, 1770–1870* (Cambridge, 1983), 394–427. For the resistance of Asian businesses to modern business practices and institutions, see Raj Brown, *Capital and Entrepreneurship in South Asia* (Basingstoke, 1994), conclusion; J. Butcher and H. Dicks (eds.), *Business Ethics in Modern South East Asia* (London, 1993), introduction.

[161] M. D. Morris, 'Private Industrial Investment on the Indian Subcontinent, 1900–1939: Some Methodological Considerations', *MAS* 8: 4, (1974), 535–76; for a thoughtful examination of the difficulties encountered by the British in understanding legal institutions in India, see D. Washbrook, 'Law, State and Agrarian Society in Colonial India', *MAS* 5: 3 (1981), 649–721.

another.[162] This suggests that institutional explanations must be placed in a broader social and cultural context. The separation between business groups coincided with a growing social distance between the British community and Indians more generally, and the adherence by many businessmen to 'orientalist' conceptions of authority and strict ideas of the appropriate character of businessmen. Unlike the state, business made no attempt to promote the employment of Indians in senior positions and in the 1890s and 1900s the proportion of Europeans employed in supervisory posts was increased so that that no European would be subordinate to an Indian.[163] This occurred despite the expansion in the numbers of educated Indians suitable for such posts and the increase in European salaries of over 25 per cent.[164] The reluctance of British firms to employ Indians in higher posts was justified to the Public Services Commission of 1913 with appeals to the familiar concept of character. British businessmen denied that the increased educational attainments of Indians qualified them for prestigious employment and, as with British candidates for the ICS, Indians who proved adept at competitive examinations were thought to be deficient in character. As W. D. Braithwaite observed,

> There is a good deal of evidence to show that education has increased in quantity, but I rather doubt whether it has increased in quality . . . I refer partly to the formation of character . . . The difficulty . . . is the extraordinary rapidity with which the educated native of India is able to memorise . . . Increases in education means that there are more Indians on the way to culture than there were, but I am not sure that they are any further on their way to culture as a whole than they were in 1886.[165]

Some conceded that eventually exposure to western culture and education, particularly in Britain, could have beneficial effects on Indians. N. McLeod of the Bengal Chamber of Commerce concluded that:

[162] The civil Justice Committee of 1924–5 concluded that there had been great improvements in the administration of commercial law in India, particularly in Calcutta and Bombay, since the 1880s, *Report of the Civil Justice Committee, 1924–25* (Calcutta, 1925), 197 ff.

[163] J. C. Shorrock, *Report of the Public Services Commission, 1913*, iii. 251 and 254; W. D. Braithwaite, ibid., iii. 245; N. C. McLeod, ibid., iii. 447 and 449; J. M. Proctor, ibid., iv. 220.

[164] The number of English-educated Indians at the matriculate level increased from 298,000 in 1887 to 505,000 in 1905. Sarkar, *Modern India*, 65 f.

[165] W. D. Braithwaite, *Report of the Public Services Commission, 1913*, iii. 239 ff.

There still remain great drawbacks in his [the native's] character . . . I would mention their general unwillingness to accept responsibility, which is probably the outcome of the environment . . . while their complete disregard for the value of time is well-known. Western influence may in time eradicate these drawbacks . . .[166]

Others seemed to suggest that character could not be produced simply by education, but was in some way inherent, although often the inherent characteristic was connected with social class rather than race. E. J. Holberton believed that the real problem with the open examination was that, 'the wrong classes of Indians were successful'.[167] The same point was made by W. D. Braithwaite:

I think it is quite possible that there is a class of Indians which has not come forward for public service and whch might acquire an English character . . . a class which has ruling traditions behind it . . . I have met individuals whom I consider suitable, members of the aristocratic classes . . ., but I rather doubt whether the class of Indians now available for public service would acquire it.[168]

Thus, in large part, owing to the managing agents' attitudes to both race and class the agency houses persisted in recruiting more expensive European staff as mill and colliery managers.[169] This was despite the increasing availability of Indian technical staff with the qualifications to fill these posts.

Business and the Government of India

Differences over the issue of race were one of the main causes of the tension between the business community and the Government of India. While from the 1880s the state gradually began to open the higher echelons of the ICS to Indian candidates, businessmen generally objected to these reforms and campaigned vigorously against all forms of indianization. A strongly worded protest, organized by Jardine Skinner and signed by partners of thirty-four of the leading firms in Calcutta, was submitted to the Public Services Commission of 1886, arguing that top administrative positions must be kept 'thoroughly British in character'.[170] A similar conflict arose in 1913 over whether Indian candidates for the ICS should be able to sit the examination in

166 N. C. McLeod, *Report of the Public Services Commission, 1913*, iii. 445.

167 E. J. Holberton, ibid., iii. 190.

168 W. D. Braithwaite, ibid., iii. 238 and 239.

169 See Chapter 5.

170 European Association, General Committee Minute Books, 12 May 1896; see also Sinha, *Colonial Masculinity*, ch. 3.

India rather than in Britain. Every business witness objected to this proposal and a number even suggested that Indians should not be able to enter the service at all. Henry Proctor, a leading merchant in Bombay commented,

> I consider that as a body the Indians do not possess the administrative and governing qualities which the English have . . . There are some Indian gentlemen with these qualities, but they are the exception not the rule.[171]

The non-official European community protested that the examinations were unfair given the Bengalis' well-known proficiency in 'cramming'.[172]

The non-official community, led by the managing agents, began therefore to organize itself politically in order to maintain racial segregation. The formative experience in this process was the Ilbert controversy of 1884–5, which was provoked by the state's determination to render British citizens in 'up-country' districts subject to trial in criminal cases by Indian magistrates. Although this reform would mainly have affected planters, opposition to the bill was organized by the business community as a whole, and was led by the Bengal Chamber of Commerce and its president J. J. Keswick, senior partner of Jardine Skinner. Mass meetings were held and the first European non-official political organization in India, the European and Anglo-Indian Defence Association (EAIDA) was established.[173] There were even rumours that the EAIDA planned to kidnap Ripon and smuggle him back to Britain, to be paraded through the streets of London in shame.[174] It was in large part this campaign which led to the abandonment of the bill. The EAIDA (later the European Association) remained as the principal focus of non-official political activity. It continued to be dominated by business interests and saw its primary role as the protection of the legally entrenched racial exclusivity of the European community in India.

Naturally, this intransigent position on the issue of race led to tension with the imperial state which was attempting to enlist the support of

[171] Appendix to the *Report of the Indian Public Services Commission, 1913*, vi. 219, evidence of H. Proctor.

[172] European Association, General Committee Minute Books, 23 Apr. 1912.

[173] W. D. Braithwaite, the president of the EAIDA in 1913, described its purpose thus: 'It was started in 1883 to focus the opinions and protect the rights of Europeans in India, political rights especially. We have about 1000 members drawn from the commercial classes'. Appendix to the *Report of the Indian Public Services Commission, 1913*, iii. 237, evidence of W. D. Braithwaite.

[174] C. E. Buckland, *Bengal Under the Lieutenant-Governors* (Calcutta, 1901), ii. 776–87.

Indians who were likely to sympathize with nationalist opinion.[175] Business opinion, represented by EAIDA, was generally politically Conservative, understandably given its commitment to empire and its opposition to Liberal attempts to promote Indian self-government. This association with Conservative Party politics is also evident in the Bengal Chamber of Commerce's formal association after 1912 with the London Chamber of Commerce, which was in the vanguard of the tariff reform campaign.[176] Support for tariffs was linked with business's consistent opposition to direct taxation, over which there were several conflicts with the Government of India; in 1869 the government succeeded in imposing income tax, against the objections of business groups.[177] Relations between businessmen and the Liberal viceroys of the period, such as Ripon, were particularly poor, and they opposed his local government reforms which created Indian electorates and devolved some powers to Indians.[178] Relations with Conservative viceroys, such as Lytton and Curzon, were warmer, but they were still not close.[179] Curzon, in particular, considered that business attitudes towards race were unacceptable and damaging to the future of the empire. He criticized 'merchants, planters and businessmen' in Calcutta, who were 'infected with the strongest race prejudices'.[180]

It is therefore difficult to agree with the views of some historians who assume a close, collusive relationship between British businessmen and the state in India.[181] Businesses did sometimes benefit from state contracts, but it seems that the GoI expected business tenders for these contracts to be competitive and few personal favours seem to have been given. Indeed there is evidence of some official hostility to the practices of the managing agency firms. H. K. Gracy, a magistrate and collector in the United Provinces, offered a highly critical evaluation of them in his submission to the committee considering company law revision in 1912–13:

[175] Brown, *Modern India*, 135 f.; Sarkar, *Modern India*, 19–24.

[176] D. Kynaston, *The City of London: A World Of Its Own, 1815–1890* (London, 1995), 377 f.; S. R. B. Smith, 'The Centenary of the London Chamber of Commerce: Its Origins and Early Policies', *London Journal*, 8 (1982), 156–71.

[177] Tyson, *The Bengal Chamber*, 14.

[178] Metcalf, *Imperial Ideologies*, 200 ff.

[179] Massey, *Recollections*, 19 ff.

[180] Lord Curzon to Lord Hamilton, 9 Sept. 1903, IOLR Curzon Collection, MSS Eur. F. 111–62, 320–1.

[181] For these views see, for instance, Bagchi, *Private Investment*, 165–70.

The problem with the [company law] bill is that it does nothing to curtail the managing agents' powers of running companies for their own and not the shareholders interests . . . I am aware that this argument presumes a very low standard of commercial morality, but I think recent episodes in the commercial world prove clearly that any legislation based on the assumption that a high state of commercial morality exists will safeguard the public very poorly.[182]

There were individuals within the business community who moved in government circles and who took an active interest in politics, such as the first Lord Inchcape, who sat on a number of government committees and was seriously considered as a successor to Curzon in 1903.[183] However, Inchcape was an unusual case, and after his departure in 1920, as will be seen in Chapters 6 and 7, the influence which expatriate business exerted through him declined.

The British business community was given political representation by the Government of India before 1914, largely because it had shown during the Ilbert controversy that it could not be ignored. The community had its own press, including the influential newspapers *The Statesman*, owned by Andrew Yule, and *The Englishman*, which was established in the 1830s and was often a vigorous critic of government policy until its closure in the 1930s. The political importance of the community was recognized in the 1861 Indian Councils Act, when municipal councils were expanded to admit both European and some Indian non-officials. This reform, however, was not a sign that the official and non-official community were become closer. The Secretary of State for India, Charles Wood, observed sourly of the reforms:

I do not care to what extent Englishmen in Calcutta legislate for Calcutta or for themselves anywhere, but I do not think them fit to legislate for other people whom they despise or hate, or whose interests are totally different to their own. In India Government is really for the protection of the natives.[184]

In 1892, under the terms of the new Indian Councils Act, the community received representation in the new Provincial Legislative Councils, but deputies were still nominated by officials rather than elected by the non-official community. They were also given less representation than Indian business groups: of the eleven non-official seats in the Bombay and Bengal councils only two were allocated to British businessmen, while nine went to Indian businessmen.

[182] Note by H. K. Gracy on the 1913 Companies Act in IOLR, L/P&J/5/87, Apr. 1912.
[183] Jones, *Trade and Shipping*, 154.
[184] Tyson, *The Bengal Chamber*, 74.

Political conflicts between the GoI and the business community were reinforced by the social and status distinctions described above, and the competition which this produced. As one businessman in Calcutta on the eve of the First World War commented, the social distinction between those in business and those in official or military occupations 'was much sharper than it was in society at home'.[185] Another observer of Calcutta society noted officials' snobbery towards businessmen:

> By 'gentleman merchant' we mean the man of business who is received by local society, perhaps consisting of a dozen souls all told; but to achieve this he frequently has an uphill game to play, for the bureaucratic element predominates, and the feminine proportion thereof is dead against admitting to their exclusive circle anyone who smacks of trade.[186]

Many contemporary sources commented on the official prejudice against commercial men in the late nineteenth century and the use of the derogatory term 'boxwallah', meaning travelling salesman, to describe all businessmen, began in this period.[187]

On the eve of the First World War the British managing agency houses had developed a form and practice of business which made sense in the context of the international economy and of colonial society at the end of the nineteenth century. The growth of the Indian economy and its position within an expanding international trading system rewarded firms which were small, flexible, and led by individuals with complete authority within the firm; the exclusivity of colonial society and of the business community within it made sense in the context of strategies by which the state and British society in general sought to legitimize its hegemony in India. The economic conditions in which the firms had developed and the social and political conditions in which the businessmen lived together encouraged partners to place an emphasis on their own authority and status. Both as merchant adventurers who could exploit opportunities swiftly, and as *burra sahibs* with a high position in colonial society, the managing agents were determined to prevent any erosion of their autonomy and prestige. Hence, the partners became increasingly isolated from their subordinates in the firm, the state, and Indians.

It was becoming clear even before 1914 that these habits could have a

185 N. Carrington, IOLR, MSS Eur. C. 392, 124.
186 Hervey, *The European in India*, 33.
187 Lovat Fraser, *India Under Curzon*, 12. See also Massey, *Recollections*, 219–24.

damaging effect, and this was certainly the case after the war. As will be seen in following chapters, when industries required more complex and expensive technologies, requiring greater expertise and more complex organization, as economic opportunities were increasingly to be found within the Indian economy rather than in international trade, and as the role of the state and of new Indian entrepreneurs became greater, these practices and attitudes increasingly jeopardized business's economic and political position within India.

Part II

The Managing Agencies and the Indian Economy, 1919–1947

2
The Partnership Firm and its Critics

> The Managing Agency System, which has been described in certain quarters as the pivot of industrial enterprise in India, has been principally responsible for the growth of those evils and abuses which have become too patent to need detailed description . . . Their insistence on the enjoyment of unregulated license is in our considered opinion a most suicidal claim which in course of time, is bound to evoke measures of an extreme character to suppress this license.
>
> The Opinion of the Bombay Shareholders' Association on the Indian Companies (Amendment) Bill, 1936[1]

The structure of the managing agencies was one of the most controversial features of British business in India. Both government officials and Indian shareholders became increasingly critical of the 'managing agency system', which, they argued, held back Indian industrial development by cheating shareholders and ruining the companies which they managed. The managing agents themselves, however, argued that the system was beneficial for the companies they managed and for the Indian economy as a whole, and some recent work has supported their claims. It has been suggested that the managing agency houses, by uniting under one firm financial, industrial, and commercial interests, were able to reap the benefits of integration and economies in management and administration; so, for instance, the managing agencies' banks could mobilize capital for their industrial concerns, while they could use their transport networks to move raw materials and finished goods. This structure, it has been argued, was similar in some ways to the highly successful Japanese *zaibatsu* or the modern multidivisional firm,

[1] Memorandum of the Bombay Shareholders' Association, *Opinion on the Indian Companies Act (Amendment) Bill, 1936*, Government of India, Department of Commerce, Paper No. VIII, Part I, pp. i–ii.

and gave the managing agency a potential advantage in modern industries.[2]

However, the evidence suggests that, whatever the potential advantages of the managing agency system, they were never fully exploited. Moreover, far from enabling them to adapt innovatively to the challenges of economic change, the structure of these firms had, by the inter-war period, not only begun to damage the profitability of the companies managed by the agencies, but was also undermining the future of managing agencies themselves. While the senior partners were aware of some of the shortcomings of this company structure, the managing agency system, based on the small private partnership firm, gave partners autonomy and status, and allowed them to resist the encroachments of the state, their employees, and shareholders. They therefore resisted its reform.

The Origins of the Managing Agency Structure

The managing agency structure had been an ideal solution to the problems of Indian industrial development in the middle and late nineteenth century.[3] At a time when there was a shortage of modern entrepreneurial skill, no organized capital market, and a high level of general uncertainty and risk, the managing agents provided venture capital, management skills, and a reputation for reliability and creditworthiness.[4] The agents would take the initial risk, and using their own capital would set up, for example, collieries, tea gardens, and jute mills as joint-stock companies. Once the agents had successfully established

[2] For the advantages of the managing agencies' structure, see B. R. Tomlinson, 'Colonial Firms and the Decline of Colonialism in Eastern India, 1914–1947', *MAS* 15: 3 (1981), 455–86; see also S. Chapman *Merchant Enterprise in Britain from the Industrial Revolution until World War I* (Cambridge 1992), 220; on the advantages of the multidivisional firm, see A. Chandler, 'The Growth of the Transnational Industrial Firm in the United States and the United Kingdom', *EcHR* 33 (1980); on the structure of *zaibatsus*, see H. Morikawa, *Zaibatsu: The Rise and Fall of Family Enterprise Groups in Japan* (Tokyo, 1992).

[3] For the structure of the managing agencies, see P. Lokanathan, *The Industrial Organisation of India* (London, 1935); Tomlinson, 'Colonial Firms and the Decline of Colonialism', 455–86; R. S. Rungta, *The Rise of Business Corporations in India, 1851–1900* (Cambridge, 1970); B. B. Kling, 'The Origin of the Managing Agency House System in India', reprinted in R. K. Ray (ed.), *Entrepreneurship and Industry in India, 1800–1947* (New Delhi, 1992), 83–108; S. K. Basu, *The Managing Agency System in Prospect and Retrospect* (Calcutta, 1958); R.K. Nigam, *Managing Agencies in India: First Round: Basic Facts* (New Delhi, 1957).

[4] For trading instability in the mid-nineteenth century, see B. R. Tomlinson, *The Economy of Modern India 1860–1970* (Cambridge 1993), 97–101.

these firms, they would sell the majority of their shareholdings to the wider public, initially to other British people in India and later to Indian shareholders who were attracted by the managing agencies' high repute. The managing agents' 'venture capital' would then be available for investment in other enterprises. However, in spite of their relatively small shareholdings in the companies they managed they were able to retain complete control over them through long-term and legally binding agency contracts, which shareholders had initially regarded as guarantees of good management. The managing agents were also able to use their access to both their own capital and the managed companies' reserves to support enterprises during recession: most companies were forced by their managing agents to follow a conservative dividend policy as their managing agents sought to build up substantial reserves of undistributed profit. These reserves could then be used to subsidize the dividends of other less successful companies or of the company itself in lean times;[5] as will be seen, the agents were anxious to avoid provoking discontent among shareholders. Hidden reserves were also used as collateral to secure bank loans for companies which would not have been able to raise such loans on their own. In addition, managed companies benefited to some extent from the lower costs of an integrated management and technical support system, covering several enterprises; they also enjoyed some economies in the purchase of stores and access to the managing agents' sales and marketing networks. Given such advantages, it is not surprising that the managing agencies were extremely successful in attracting investors' capital into the companies they managed.

The partners in turn were well rewarded for their initial risk and management services.[6] The managing agent would receive a percentage of turnover or profits, a commission on purchases and sales, and a 'head office allowance' for its services. It would also normally expect to receive interest on loans advanced and various other fees. The agency effectively controlled the company, and one of its partners was *ex officio* chairman of the board. The agency contracts usually ran for twenty or

[5] S. D. Chapman, 'Investment Groups in India and South Africa', *EcHR*, 2nd ser. 40 (1987).

[6] M. Morris argues that Indian entrepreneurs favoured the managing agency structure because it allowed them to receive greater rewards than they would have gained by risking capital in a simple joint-stock company. See M. Morris, 'Indian Industry and Business in the Age of Laissez-Faire', in R. K. Ray (ed.), *Entrepreneurship and Industry in India, 1800–1947* (New Delhi, 1992), 222–6.

thirty years, and many were effectively irrevocable, requiring a two-thirds majority of shareholders to overturn them; majorities of this size were difficult to obtain as managing agencies would usually be in control of at least 15–20 per cent of the equity by either direct ownership or control of proxy votes, and would buy an additional 15 per cent in the event of a challenge.

So both the agents, who were able to mobilize the scarce resources of capital, entrepreneurship, and management in late nineteenth-century India, and the companies and investors who enjoyed the security of agency management, benefited from the system. However, there were drawbacks to the managing agency structure which increasingly came to outweigh its advantages as the Indian economy developed and capital and management skills became less scarce. These problems affected both the managing agencies themselves and the companies which they managed, and it was increasingly difficult to find any advantages in the managing agency system except for the partners themselves who were able to defend their autonomy.

Unlike contemporary American multidivisional companies, the managing agencies did not promote full integration within their groups, and the relationship between the managing agency houses and the companies it managed was not that of a holding company to its subsidiaries. Each enterprise within the group was, formally, a wholly independent company in its own right with its own board of directors and body of shareholders. This led to a certain duplication, rather than streamlining, of activities within the group as a whole, and for this reason the managed firms failed to reap the full advantages of integration into a larger, diversified group. But neither did they enjoy the benefits of full independence: their directors were not independent of the managing agents, but were their nominees and were, therefore, not always able to defend the interests of the particular company when they conflicted with those of other companies within the managing agency group. As will be seen, after the First World War there was mounting criticism from shareholders of the damaging effects on profitability of this dependence.

It might seem reasonable to assume that if the managing agency system did not serve the best interests of the managed companies it did at least serve those of the managing agents themselves. However, the system increasingly began to damage the managing agency partnerships themselves. The diminishing profitability of the managed companies affected the profits of the managing agencies which relied,

to some extent, on shares held in these companies. Also, perhaps more importantly, the agency structure failed to mobilize sufficient capital for more modern industrial development, largely because the majority of the managing agencies chose to retain their status as private partnerships. Their refusal to adopt limited liability status ensured that they would increasingly be starved of capital.

Sources of Capital

It is extremely difficult to give an accurate figure for the extent of British direct investment in India (as opposed to portfolio investment in government and railway stock), and without this we can only form a very partial picture of the real economic strength of the managing agencies. There have been estimates of British private investment, such as that submitted by the Associated Chambers of Commerce to the Simon Commission in 1930, which estimated British capital in the private sector, mainly in the managing agencies, at between £160 million and £200 million. However, it is difficult to interpret these figures as it is not clear whether they refer to capital owned or merely controlled by British private firms.[7] Many of the managing agents' assets were concealed from the public, and are still largely concealed from historians.[8] There is equally scant evidence of the remittance policy of British enterprise in India, and therefore it is impossible to make any accurate assessment of the proportion of profits reinvested in India. For example, much capital which appeared to have been remitted back to London permanently and which some historians have seen as a net loss to the Indian economy was actually placed on deposit in Britain with the Indian Exchange Banks' correspondent banks, and was used as collateral against which banks would lend money to firms in India.[9]

While it is difficult to assess the amount of capital invested, it is clear from the archival evidence analysed here that by the 1930s the managing agents lacked sufficient internal capital resources to invest in potentially profitable new projects. In particular, as will be shown in Chapters 3 and 4, they did not have sufficient capital to invest in the

[7] M. Kidron, *Foreign Investment in India*, 54, n. 1; M. Lipton and J. Firn, *The Erosion of a Relationship: India and Britain since 1960* (Oxford, 1975), 80.

[8] As partnerships these firms were under no obligation to publish detailed accounts. In the archives of Bird and Duff there are no accounts; those of Gillanders are difficult to interpret, but have been included in Table 3.

[9] H. N. Gladstone to H. E. Bateson, 11 May 1930. MSS OG, file 2594.

most modern and dynamic sectors of the Indian economy, the capital-intensive manufacturing industries that developed between the wars.[10]

There were various reasons for this lack of capital, one of the most significant of which was the diminishing flow of funds from Britain. The instability of the silver rupee between the 1870s and the 1890s deterred investors from private investment in India.[11] However, even after the stabilization of the rupee Keynes calculated that there was no net inflow of new private investment from Britain into India between 1900 and 1910, and after this period the partners also found it difficult to raise capital in Britain:[12] in 1927 the attempt by some of the larger jute agencies in London to sell jute shares failed.[13] In 1930 Albert Gladstone urged that City of London Trust Funds should be encouraged to invest in jute mills in order to reduce the shareholding of Indian investors, but it came to nothing.[14] Thomas Gladstone, writing in the 1940s remembered that:

> Albert Gladstone had the idea of a Sterling investment company . . . with shares entirely removed from any Indian political influence. We got no encouragement then as the idea of concentrating on the shares of a particular company was contrary to the Trust principle in the City; spreading risk was . . . widely favoured.[15]

In 1945, again, Gillanders attempted to establish a market in London for shares in its managed companies, but Albert Gladstone, now the senior London partner, discovered that 'an investor interested in Indian rupee industrials is a rare bird in this country'.[16]

Other possible sources of capital were the Indian Presidency Banks, with which the managing agencies had close relationships.[17] However, these banks were not sources of long-term capital, and managing agents

[10] See also Tomlinson, 'Colonial Firms', 463.

[11] Tomlinson, *The Economy of Modern India*, 117–18.

[12] J. M. Keynes, 'Review of T. Morrison, *The Economic Transition in India*', in *The Economic Journal*, Sept. 1911.

[13] A. Gladstone to B. Eddis, 13 Oct. 1927, MSS OG, file 2614; see also W. B. Gladstone to M. d'Kellock, 25 Mar. 1926, MSS OG, file 2613. Similarly, in 1928 a plan to interest the City in shares in the Imperial Bank was abandoned because, as Bateson of Gillanders explained, 'no one will put up the money'. H. Bateson to B. Eddis, 29 Nov. 1928, MSS OG, file 2614.

[14] A. Gladstone to B. Eddis, 3 Sept. 1930, MSS OG, file 2594; see also J. MacDonald to G. D. Mason, 15 Nov. 1924, MSS A. & S. Henry, 86/v/1/4–5.

[15] A. Gladstone to T. Gladstone, 29 Mar. 1945, MSS OG, file 2634.

[16] Ibid.

[17] See A. K. Bagchi, *The Presidency Banks and the Indian Economy, 1876–1914* (Calcutta, 1989), 238.

complained about their generally restrictive lending policy.[18] It is generally agreed that the managing agencies mainly relied on their own profits for investment.[19] However, this source was increasingly unable to provide the volume of capital demanded by the new industries: as following chapters will show, the profitability of many of the managing agents' traditional concerns was falling.[20] In the early 1920s most British firms in Calcutta suffered disastrous losses as the post-war slump swiftly followed a period of unprecedented expansion in the years 1918–21. Bird and Co., for instance, lost over £1.25 million when their post-war flotations collapsed.[21] Similarly, the firm of Barry and Co., part of the Inchcape group, saw its half-yearly profits plummet from Rs 207,670 in September 1920 to only Rs 65,545 in September 1921.[22] In the late 1920s, just as the managing agencies were recovering from these difficulties, their traditional commodity businesses were hit by the Great Depression, making new investment inconceivable. In 1932 Barry and Co. made a loss for the first time of Rs 232,740.[23] Both Bird and Heilgers made losses in 1931 and 1932, and Edward Benthall, the Senior Partner, found himself unable to fulfil his original plan of buying up shares in the companies he managed.[24] Even with the slow recovery of the middle of the 1930s there were few resources available for investment.[25]

Moreover, while the absolute level of profits was falling, the firms' ability to keep control over profits that were made was being weakened by changes in the Government of India's taxation policy. During the First World War undistributed profits (those that were to be retained as reserves for future reinvestment) had been exempt from taxation. However, after the war, the GoI, now facing a chronic fiscal crisis as the terms of trade turned against India, was forced to look for alternative sources of revenue. The favourable tax treatment of reserves was abolished in 1918, and from 1922 onwards taxation of reserves substantially reduced the funds expatriate firms had available for investment.[26] Changes in

[18] Lokanathan, *Industrial Organisation*, 155, 159.

[19] *Report of the External Capital Enquiry Committee* (New Delhi, 1924).

[20] For the fullest treatment of the financial problems of the inter-war colonial government in India, see B. R. Tomlinson, *The Political Economy of the Raj* (London, 1979).

[21] G. Harrison, *Bird and Company of Calcutta 1864–1964* (privately printed, 1964), 134–6.

[22] Barry and Co., Half-Yearly Accounts, Inchcape Collection, MS 27,870.

[23] Ibid. [24] Harrison, *Bird of Calcutta*, 168. [25] Ibid., 171.

[26] See the evidence submitted to the Indian Income Tax (Amendment) Bill, Bengal Chamber of Commerce, *Annual Report and Correspondence* (1921), i. 235.

taxation law in the 1930s also undermined the managing agencies.[27] Particularly important was the 1937 amended Companies Act which rendered 'hidden reserves' illegal.[28] Hidden reserves were profits that had not been distributed nor written down clearly in a company's balance sheet as reserves. They were often given an ambiguous title in accounts, such as 'miscellaneous liabilities', and were a very important source of capital for managing agents because they were kept secret from company shareholders.[29] Edward Benthall, senior partner of Bird, was horrified at this change in the law, arguing that the new act would 'stop [the creation of] any hidden reserves which all over the world go to build up the soundness of public companies'.[30]

With profits falling and unable to attract capital from Britain, the managing agencies could only look to investment from Indian sources. Traditionally, they had raised some capital from Europeans in India and from individual Indian shareholders, and these, particularly the latter, remained one of the most promising sources of capital. It has, for example, been estimated that most of the capital in the jute mill industry, and thus in many of the joint-stock companies controlled by the managing agencies before 1914, was provided by Indian shareholders.[31] The availability of Indian capital is also illustrated by the ability of the Tata Iron and Steel Company to raise Rs 23,175,000 (about £1.63 million) from 8,000 subscribers in 1907.[32] Moreover, British businessmen giving evidence to the Indian Industrial Commission in 1916 insisted that there was no difficulty in raising capital. As one witness said: 'I have never experienced any difficulties. In my opinion difficulties are very rare.'[33] Certainly Bird and Co. seemed to

[27] For instance, an amendment introduced in 1931 brought under the purview of the Indian tax authorities *all* income of residents of British India, earned within or outside India. Bengal Chamber of Commerce, *Annual Report and Correspondence* (1931), i. 213.

[28] Edward Benthall to Paul Benthall, 4 Sept. 1937, MSS Benthall, Box 13; A. Jamieson to J. Muir, 3 Aug. 1936, James Finlay & Co., Calcutta Letter Books, MSS UGD, 91/117/2.

[29] A good example of the use of hidden reserves to even out dividend payments, and thus to disguise the real performance of firms is given by Stephanie Jones in her discussion of the first Lord Inchcape's accounts. See S. Jones, *Trade and Shipping: Lord Inchcape 1852–1932* (Manchester, 1989), 121–7.

[30] E. Benthall to P. Benthall, 4 Sept. 1937, MSS Benthall, Box 13.

[31] For this evidence, see D. R. Wallace, *The Romance of Jute: A Short History of the Calcutta Jute Industry, 1855–1927* (2nd edn., Calcutta, 1928), 35; G. Slater, *Southern India: Its Political and Economic Problems* (1936), 228–9, cited in M. D. Morris, 'The Growth of Large-Scale Industry', in D. Kumar (ed.), *The Cambridge Economic History of India* (Cambridge, 1982), ii. 569.

[32] Morris, '*Growth and Large-Scale Industry.*', 590.

[33] Evidence of W. A. Ironside to the Indian Industrial Commission, *Indian Industrial Commission* (Calcutta, 1919), 880.

experience few problems with raising capital and Geoffrey Harrison, the company historian, commented of the 1920s, 'for several years the public happily poured its money into any new industry of ours'.[34]

There seems, therefore, to have been no absolute scarcity of capital available in India to the highly reputable British agency houses. However, it was increasingly the case that if the firms were to attract this capital their partners would have to relinquish some control, particularly to Indians who were the only group likely to become substantial investors. As *Capital*, the journal of British business in Calcutta, noted, there was 'plenty of capital forthcoming if development is going to be on a "national" basis . . .', that is, if British firms were to be legally incorporated in India.[35] One option would have been to enter into formal partnerships with Indians. There is only one case of this happening, when R. N. Mukherjee became a partner in the Martin Burn and Co. agency house in 1892.[36] As will be seen in Chapter 5, such close alliances with Indians were rare, partly because of the managing agents' concern for social and racial exclusivity. An alternative, and more logical course, would have been to transform the partnerships themselves into limited liability companies, offering shares to the increasingly large number of Indians interested in corporate investment.

However, despite its various advantages over the partnership form, of which the partners were well aware, the adoption of limited liability status was resisted. According to the *Indian Investors' Yearbook* of 1930–31, of the thirty-six largest managing agency firms active in Calcutta only seven held limited liability status.[37] The two largest British managing agencies with this limited status were Andrew Yule and Co. Ltd. and Martin Burn and Co. Ltd., and these were both private rather than public limited companies.[38] There were various

[34] Harrison, *Bird of Calcutta*, 121. [35] *Capital*, 3 Jan. 1919.

[36] The history of this partnership is given by R. N. Mukherjee in his evidence to the Indian Public Services Commission of 1913. He became the senior partner in the firm in 1906. See Appendix to the *Report of the Indian Public Services Commission of 1913*, vol. iii. 142 ff., evidence of R. N. Mukherjee; see also Lokanathan, *Industrial Organisation*, 45.

[37] See the *Report of the Central Banking Enquiry Committee, 1930–1931* (New Delhi, 1931), 643.

[38] For a fuller account of the takeover of Andrew Yule and Co. by the Morgan Grenfell Bank see Kathleen Burk, *Morgan Grenfell 1838–1988: The Biography of a Merchant Bank* (Oxford, 1989), 79–84; information on the exact amount of capital Mukherjee needed to buy Burns is in a letter from H. Bateson to H. N. Gladstone, 19 May 1927, MSS OG, file 2613. A fuller description of the Martin and Burns Co. can be found in Lokanathan, *Industrial Organisation*. 45 ff.

reasons for the continuing appeal of the partnership form: doubtless, part of the attraction was that partners, with a share in the profits, enjoyed higher remuneration than would managers on a salary. The complete control offered by the partnership firm seems to have been its primary appeal for many businessmen. The 1903 partnership deeds of the firm of Barry and Co., for example, stated that:

> The general management, arrangement and conduct of business shall be under the sole control of Patrick Playfair and the other partners will work loyally and in accordance with his wishes . . . his decision regarding such questions shall not be questioned.[39]

Many partners considered the legal obligations of even a private limited company would dilute their control over the agencies unacceptably and would restrict their much prized autonomy. As Henry Gladstone noted in 1927:

> I can't help feeling that we may find the restrictions of a joint-stock company rather irksome, though exactly what restrictions these will be in a company owned by Ogilvy, Gillanders and Co. is hard to estimate without experience. A private partner is so absolutely master in its own house, whereas a company must at least submit to the regulation of company law.[40]

Conversion to limited liability status was rejected by Birds for the same reasons and, as has been seen, rather than raising capital by such an innovation Edward Benthall preferred to use his capital to secure control by building up his shareholdings in his managed companies.[41] He regarded public limited status with great hostility, and when in 1935 it was suggested to Benthall that Bird should become a public limited company in order to mobilize capital so that it could participate in a joint venture in the burgeoning Indian steel industry, he rejected the idea, writing:

> Once the public are concerned with the firms we all believe that their disintegration will not be long delayed. We are strongly opposed to such a step if it can be avoided by any practical means.[42]

[39] Deed of Partnership of the firm of Barry and Co., Inchcape Collection, MS 27,864, 3 Mar. 1903.

[40] H. N. Gladstone to A. C. Gladstone, 31 Mar. 1927, MSS OG, file 2594; see also A. Murray to G. D. Mason, 23 Aug. 1933, MSS A. & S. Henry and Co., 86/v/7/1.

[41] E. Benthall, Note, Dec. 1928, MSS Benthall, Box 1. See also Harrison, *Bird of Calcutta*, 136, 168.

[42] E. Benthall to G. McKerrow, 12 Apr. 1935, MSS Benthall, Box 6.

Older partners in London were particularly dismayed by the prospect of limited liability, fearing that it would transfer the centre of power from the senior partners in Britain to their younger colleagues in India. The Gillanders partners were worried about this, partly because of the tensions over business strategy that had developed between the London and the Calcutta partners in the early 1920s.[43] Henry Gladstone, convinced that he was better able to formulate a strategy for the firm from London than could his subordinates in Calcutta, observed, 'A pushing firm in India, often much pressed with work, is all the better for some home judgement and control exercised under cooler conditions . . .'.[44]

The question of limited liability status, then, provides a good example of the managing agents' attachment to a firm structure which gave them status and control, even when it was clear to the partners that alternative methods of organization might solve many of their economic problems. As Henry Gladstone stated, when asked to consider the change to limited liability status:

> I would like you and the other managers to realise that with me this question is more one of principle than pounds, shillings and pence. We must be careful not to impede the safe and smooth running of the coach by any hasty or unwise changes . . .[45]

Internal Organization

Difficulties in raising capital were not the only problems arising from the maintenance of the partnership form of organization. As several economic historians have argued in studies of British business, the partnership structure, which fused ownership and control in the hands of a small group of partners, inhibited the extent of firms' adaptation to the demands of large-scale industrial enterprise.[46] The relatively small

[43] In 1922 the partners based in Calcutta asked to have their share in the firms profits increased to reflect what they believed was their disproportionate contribution to revenues compared with that of the London office. This suggestion was brusquely dismissed by Henry Gladstone. H. N. Gladstone to A. d'A. Willis, 15 Apr. 1922, MSS OG, file 2609.

[44] H. N. Gladstone to A. d'A. Willis, 30 Nov. 1922, MSS OG, file 2609.

[45] H. N. Gladstone to A. d'A. Willis, 12 Apr. 1923, MSS OG, file 2610.

[46] W. Lazonick, *Business Organisation and the Myth of the Market Economy* (Cambridge, 1991); B. Elbaum and W. Lazonick, 'An Institutional Perspective on British Decline', in B. Elbaum and W. Lazonick (eds.), *The Decline of the British Economy* (Oxford, 1987), 3–7; A. Chandler, 'The Development of Modern Management Structures in the US and the UK', in Leslie Hannah (ed.), *Management Strategy and Business Development: An Historical and Comparative Study* (Basingstoke, 1976).

scale of these firms together with a determination to preserve the personal control of the partners prevented them from developing more sophisticated and complex managerial structures which would, for example, have allowed for the recruitment of much needed technical specialists. One of the most persuasive explanations for the success of the managing agencies' rivals, the multinationals, is their separation of ownership from control and their multidivisional form of organization.The first allowed firms to establish a professional, specialized, and bureaucratic form of management; the second allowed for the integration of various parts of the business, which promoted efficiency and economies of scale.[47]

Unlike the multinationals, managing agency headquarters were organized on sectoral rather than functional principles. So, for instance, they had coal and jute departments rather than engineering, purchasing, marketing, and distribution departments.[48] These departments were run by assistants who were generalists and usually had no technical education. Subordinate to them were British managers, technical specialists, and marketing personnel, who would be employed in mills or 'upcountry'.[49] The Report of the 1937 Coal Mining Committee criticized the lack of technical expertise in the European firms: 'So far as we are aware, no firm of managing agents has a technical expert on its Calcutta staff, but it is from Calcutta that the policy of every coal company is directed in detail.'[50]

The small size of the partnership firm and the complete dominance of the partners also prevented the development of career structures which the agencies' more bureaucratically organized rivals were developing and which helped firms to recruit and retain able staff with the promise of promotion. Partners recruited young men as 'assistants', who were supposed to learn about the business by working in offices essentially as clerks. They would rise to the post of 'senior assistant', but were still very much subordinate to the authority of the partners. As late as 1920 all correspondence had to be seen by the

[47] Lazonick, *Business Organisation*, 45–9; Elbaum and Lazonick, 'An Institutional Perspective', 3–7.

[48] For the structure of the multidivisional firm, see Chandler, 'Development of Modern Management Structures', p. 16. For a diagrammatic comparison of the structure of the managing agency firm with that of the multinational company, see Figs. 1 and 2.

[49] For this career structure, see Interview with H. Bannerman, IOLR, MSS Eur. R.T. 80/1–2; interview with A. G. Sloan, IOLR, MSS Eur. T.R. 124; H. N. Gladstone, Memorandum on his visit to Calcutta, MSS OG, file 2724, 1909.

[50] *Report*, Government of India Coal Mining Committee (Delhi, 1937), i, ch. 4.

partners and all of the firms' letters required a partner's signature.[51] Also, the assistants' contracts of employment were short term, of three to five years, and when contracts were renewed salaries were sometimes reduced.[52] There was very little commercial training, neither were there clear career structures; this situation was, again, designed in part to maintain the authority of the partners. The Indian Industrial Commission criticized British businessmen for their complacent attitude towards commercial training and for their view that formal commercial training was of no use because 'only in the office could the training be given that would turn out a useful businessman'.[53]

Inevitably, the structure of these firms alienated the assistants and led many who had any ability to leave the firms after only a short term of employment. William Wickham, an assistant at Gillanders and a nephew of its senior partner, Henry Gladstone, compared the firm's career structure unfavourably with that of government service, noting:

> Government service perhaps pays less to begin with, but there is security of continued employment. Rapidity of promotion may vary, but there is no absolute stagnation, still less retrogression as there is with us, and no one is dismissed except for misconduct.[54]

It is not surprising, therefore, that the managing agencies found it increasingly difficult to recruit employees from Britain and lost staff to multinationals which offered better prospects and more security.[55]

The Managed Companies

Just as the partners insisted on retaining the structure of the private partnership firm despite its disadvantages, they refused to accept any changes in the relationship between the managing agencies and the firms they managed, again largely because existing arrangements entrenched their control. There were, in addition, strong economic reasons for maintaining long-term legal agreements by which the

51 Interview with W. A. Bruce, IOLR, MSS Eur. R.T. 84/1–2.
52 W. G. Wickham to H. N. Gladstone, 17 Oct. 1906, MSS OG, file 2592.
53 *Report of the Indian Industrial Commission, 1916–1918* (Delhi, 1918), paragraph 174.
54 W. G. Wickham to H. N. Gladstone, 17 Oct. 1906, MSS OG, file 2592.
55 See Chapters 5, 8.

agency secured exclusive management rights over the managed company: the managing agency received significant fees for management and other services.[56] Also, as has been seen, profits from successful companies could be used to subsidize unsuccessful ones and ensure that they would survive and continue to pay the management fee to the agency. However, strong arguments were put forward, particularly by shareholders, that these fees and, more generally, the inability of shareholders consistently to protect the interests of their firms, were damaging the managed companies. It is also arguable that the problems encountered by the managed companies undermined the profitability of the managing agencies themselves. The managing agencies received an increasing proportion of their profits from their shares in the companies they managed, rather than fees for management services.[57] Also, the managing agencies frequently had to use their own resources to rescue failing managed firms.[58]

The managing agencies did not only suffer economically from their treatment of the firms they managed. They were increasingly accused of perpetuating an exploitative and autocratic relationship with the managed companies and these charges contributed to the general unpopularity of the agencies in nationalist and even government circles.[59] It is difficult not to conclude that a more conciliatory attitude towards their managed firms would have been more productive, both economically and politically.

Before the First World War, the managing agencies were able to operate with enormous freedom. Between 1882, when the first Indian Company Law Act was passed, and 1913 when it was amended, they were constrained by very few legal restrictions. Shareholders also posed little threat; although shares in the managed companies had been available on the embryonic Calcutta and Bombay stock exchanges from the 1890s, and were often bought by Indian shareholders, shareholders were initially

[56] For instance, the contract between the shareholders of the Budge Budge Jute Mill and its managing agent, Andrew Yule and Co., gave Yule or its successors the right to manage the company in perpetuity, and to receive 5% commission on profits plus Rs 500 per month, or minimum remuneration of Rs 42,000 p.a. This agreement could only be overturned by a vote of two-thirds of shareholders, and even then Yule would be entitled to compensation. See Lokanathan, *Industrial Organisation*, 16.

[57] A. G. Gladstone to T. Gladstone, 15 Jan. 1941, MSS OG, file 2633.

[58] Speech by L. Hudson, 25 Sept. 1936, *Proceedings of the Central Legislative Assembly 1936*, vi. 1869.

[59] See Chapters 5, 8.

passive, accepting the managing agency contracts and rarely challenging the agents' control.[60]

After the First World War, however, shareholders became much more assertive. This was partly because they had bought shares at highly inflated values, when the enormous profits in the jute industry had led to sharp rises in share prices. Shareholders were also more powerful, as some of the agents had sold shares, taking advantage of the high prices. Hence, there was increasing pressure for greater shareholder control over management. Henry Gladstone noted that:

> a change has come over shareholders' meetings in India. They used to be more nominal and hardly attended. They are now very similar to UK ones, with large numbers of shareholders attending, speaking and even criticising boards of directors. The managing agents should come to some informal agreement among themselves to stand against this.[61]

One of the main complaints of shareholders was that the agency contracts remunerated the agents according to output, rather than profits, and so the agents continued to receive large fees even when the company was not profitable.[62] However, the shareholders were not merely concerned to maximize their dividends; they mounted a more principled challenge to the secretive and undemocratic way in which the companies were run, demanding greater information about the financial status of the companies, the publication of profit and loss accounts, and the introduction of outside auditors. The Bombay Shareholders' Association, for instance, denounced the 'unregulated license' which the managing agents insisted on enjoying.[63] In some cases,

[60] It is impossible to estimate the relative proportions of European and Indian shareholders in companies managed by the managing agency firms, because so many shares in Indian corporations were held on what were known as 'blank transfer' which meant that their owner did not have to put his name to them. Many large blocks of shares were held anonymously by banks. William Ironside, senior partner in the firm of Bird and Co., gave some indicative figures for relative Indian and European shareholders in companies managed by Birds in 1913; in the coal companies there were 1,551 European shareholders representing Rs 97 lakhs, 405 Indians representing Rs 8 lakhs, and 59 Armenians. In the jute companies there were 2,471 European shareholders with Rs 148 lakhs and 423 Indians with Rs 25 lakhs. Ironside suggested that there were many more Indian shareholders on blank transfers. See W. Ironside, *Report of the Indian Industrial Commission, 1916–18*, Evidence, 881. See also Rungta, *The Rise of Business Corporations*, 197.

[61] H. N. Gladstone to H. Bateson, 17 Nov. 1921, MSS OG, file 2609.

[62] See similar opinions expressed in 1936. *Indian Companies Act (Amendment) Bill, 1936*, Evidence to the Committee, Opinion No. 38, The Bombay Shareholders' Association, (New Delhi, 1936), pp. i–ii.

[63] Ibid., p. ii.

dissatisfaction culminated in shareholders staging organized challenges to the continuation of the agency contracts.[64]

Most managing agents, however, refused to compromise. While they were eager to preserve their lucrative fees, they also made it clear that they objected on principle to any developments which might reduce their control over the companies they managed as Indians began to demand the same rights as shareholders in Britain.[65] Gladstone wrote that to make any concessions to shareholders would be to grant 'the great principle of giving shareholders the idea that they can dictate to management'.[66]

The managing agencies were even willing to commit their scarce capital resources to increasing their shareholdings in managed companies rather than making concessions to shareholders. So, for instance, Gillanders insisted on maintaining a large percentage of shareholdings in the Gondalpara Jute Mill, even though their sale would have produced a substantial capital gain, because 'we bought the shares for the purposes of maintaining our control, and this motive still remains'.[67] Another example of the commitment of a great deal of capital to secure control, is the policy adopted by Birds in the 1920s and 1930s. Because the senior partner, Benthall, had been unable to raise the money to buy out the shareholdings in the managed companies of the deceased senior partner, Lord Cable, his control over these companies was constantly threatened by the release of large blocks of shares to the general public by Cable's trustees.[68] Hence, Benthall was unable to use his capital to invest in new projects and was instead forced to 'increase protective holdings' of shares.[69]

Shareholders were increasingly supported in their criticisms of the managing agency system by the state. The first significant intervention

[64] Gillanders' planned Century Jute Mill was affected by this shareholder unrest. The new mill had to be abandoned when shareholders voted for the entire project to be abandoned. H. Bateson to H. Gladstone, 4 Sept. 1922, MSS OG, file 2609.

[65] Gladstone accepted that Indian shareholders were demanding to be treated as shareholders were in Britain. See H. Gladstone to H. Bateson, 17 Nov. 1921, MSS OG, file 2609; see also MSS Macneill and Barry Ltd., MS 27, 853, Inchcape Collection.

[66] H. Gladstone to H. Bateson, 19 Oct. 1921, MSS OG, file 2609.

[67] H. Bateson to B. Eddis, 18 Oct. 1928, MSS OG, file 2614.

[68] See L. Batchelor to E. Benthall, 6 Sept. 1935, MSS Benthall, Box 10; H. P. Bennett to E. Benthall, 22 Aug. 1941, MSS Benthall, Box 15.

[69] E. Benthall to G. Morton, 14 Apr. 1941, MSS Benthall, Box 16. The managing agency house of Barry and Co. was also increasing its shareholdings in the jute mills it managed. See the Half-Yearly Accounts of Barry and Co., 1935–7, the Inchcape Collection, MS 27,870.

of the GoI in the agencies' affairs came in 1913, with an amendment to the 1882 Indian Company Law Act designed to force joint-stock companies to publish a balance sheet and auditors' reports. However, the agency firms themselves, as private firms, did not have to reveal this information.[70] Yet within a short time officials within the GoI began to make more general criticisms of the managing agency system; as will be seen in Chapter 6, this was associated with the GoI's increasing concern with the promotion of Indian industrial development during the inter-war period.[71] The GoI's Industrial Commission of 1916 censured the agencies for their conservatism and limited contribution to the development of the Indian industry, and the Tariff Board Enquiry into the cotton textile industry of 1928 argued that the managing agency system itself was undermining the industry.[72]

By the mid-1930s, a lively debate over the contribution of the managing agency system to the managed companies and the Indian economy in general had developed. Influential economists argued that they were undermining attempts to industrialize India;[73] in a particularly important contribution to the debate in 1934 Daniel Buchanan argued, 'however necessary the managing agency system was for the development of Indian industry, it has been too secretive, over-competitive and ultimately expensive'. He was particularly critical of the agencies' relationship with the managed companies: 'The greatest curse to the trade is the abominable system so generally followed by the mill agents of deducting a percentage for management from output.'[74]

By 1934, there was sufficient hostility to the managing agency system within government circles for the GoI to initiate an inquiry into the reform of company law in 1934, which led to the 1936 Indian Company Law (Amendment) Act. The Act severely limited the agencies' control over managed companies: the tenure of agency contracts was limited to twenty years; remuneration was linked to profit, rather than output or sales, and inter-company loans and share transactions among firms within the agency group was made illegal. The Act also, for the first time, required every company in India to have its own board of at least

[70] On the evolution of company law in India before 1912 see Rungta, *The Rise of Business Corporations*, 36–46, 203–19.

[71] See Chapter 6.

[72] See *Report of the Indian Tariff Board, 1928*, (Cotton Textiles), 1928, paras. 456 ff.; *Report of the Indian Industrial Commission, 1916–18* (Cmd. 51 of 1919), vol. i, para. 9.

[73] See, for instance, Lokanathan, *Industrial Organisation*, 214 f.

[74] D. Buchanan, *The Rise of Capitalistic Enterprise in India* (New York, 1934), 169–72.

three directors, the majority of whom were to be elected by the shareholders and to be independent of the managing agent.[75]

The managing agencies opposed virtually all of these reforms on the grounds that they would harm their ability to run companies well and flexibly. As the Bengal Chamber of Commerce stated in its submissions to the Department of Commerce:

> It is obvious no law, be it ever so good can entirely prevent fraud and dishonesty which are sins born in man and not defects of an economic system. It is therefore clear that merely to fill the law with restrictive clauses will not protect the public and may gravely prejudice the effective management of the companies.[76]

Of the final recommendations of the Company Law Enquiry Committee, the Bengal Chamber of Commerce could agree with only one, the restriction on inter-company loans, or 'cross-investment' within a particular agency group, and even in this case it made the concession not on principle but in order to defuse criticism of the managing agency system.[77] However, the managing agencies did achieve a significant victory in that they managed to resist the attempts of some of the more radical government officials to abolish the system altogether.[78]

The 1936 Act clearly had an important effect on the way in which the managing agency houses were run, but it appears merely to have undermined their position rather than changed their behaviour. The managing agencies responded by using even more of their capital to secure controlling shareholdings rather than by establishing a new, more collaborative relationship with their managed firms as the Act had intended.[79]

It is difficult to gauge the precise effect of legislative change on the

[75] S. K. Sen, *An Economic History of India, 1848–1939* (Delhi, 1966), 154 ff.

[76] The Bengal Chamber of Commerce to the Government of India (Department of Commerce), 30 June 1936. Opinion No. 22, IOLR, India Office Economic and Commercial Department (IOECD), files L/E/9/204, para. 16.

[77] Minutes of a Meeting of Representatives of Managing Agency Houses, 17 Nov. 1936, in the *Annual Report and Proceedings of the Associated Chambers of Commerce and Industry of India* (Calcutta, 1937), 118 f.

[78] *Minutes of the Informal Committee on the Indian Companies (Amendment) Act*, 21 Jan. 1936, IOLR (IOECD), file L/E/201.

[79] After the passage of this act many agency houses set up independent investment companies which were used to increase controlling shareholdings in managed companies without attracting undue attention. See Harrison, *Bird of Calcutta*, 167; P. Benthall to E. Benthall, 26 Nov. 1937, MSS Benthall, Box 11; A. Gladstone to T. Gladstone, 29 Mar. 1945, MSS OG, file 2634.

profitability of the agencies, but it is unlikely to have been decisive: as will be seen, by the late 1930s the economic performance of the agencies and their companies was already poor. Both elements of the 'managing agency system', the partnership structure of the agencies and the relationship between the agencies and the managed firms, had become outmoded, and contributed to the deterioration of its economic and political viability. Increasingly, it was only possible to justify the system as a way of ensuring that the partners could maintain their traditional style of business. The following two chapters will examine the effect of this behaviour and institutional structure on the agencies' performance in industry and commerce.

3
Industry and Innovation

> They [the managing agents] have been charged with lack of enterprise. They have been inclined to develop commerce rather then industries and have thus been less helpful than might have been the case in clearing the way for continuous industrial progress.
>
> Report of the Indian Industrial Commission, 1918[1]

After the First World War the Indian economy underwent a significant transformation. The structural changes in world trade which resulted from the rise of protectionism in the 1920s, the turning of the terms of trade against the old staple commodities, and the increasing reliance of the Government of India on customs duties for revenue all had the effect of fostering Indian industrialization and domestic production.[2] While Indian entrepreneurs, British, and continental multinationals made striking advances in the new import substitution industries (such as cement, heavy chemicals, iron and steel, engineering, and food processing), the response of the British managing agents to these structural changes was remarkably muted.[3] A few of the larger firms diversified into the new sectors, such as engineering. However,

[1] *Report of the Indian Industrial Commission* (New Delhi, 1918), Section 9, 'The Managing Agency Houses'.

[2] For a full exposition of these points see C. Dewey, 'The End of the Imperialism of Free Trade', in C. Dewey and A. G. Hopkins (eds.), *The Imperial Impact: Studies in the Economic History of Africa and India* (London, 1978), 35–68; I. M. Drummond, *British Economic Policy and the Empire, 1919–1939* (London, 1972); B. R. Tomlinson, *The Political Economy of the Raj: The Economics of Decolonization in India* (London, 1979); D. M. Wagle, 'The Impact of Tariff Protection on Indian Industrial Growth, 1918–1959: With Special Reference to the Steel, Cotton Mill and Sugar Industries', Ph.D. thesis, University of Cambridge, 1975; for a contemporary account from the official side see A. D. Clow, *The State and Industry* (Calcutta, 1928); *Report of the Indian Fiscal Commission 1921–2*, Cmnd. 1764 of 1922.

[3] Tomlinson, *Political Economy of the Raj*, 52; for details of Indian enterprise in the new import substitution sectors in the inter-war period, see A. K Bagchi, *Private Investment in India, 1900–1939* (Cambridge, 1972), 332–420; R. K. Ray, *Industrialization in India, 1914–47* (New Delhi, 1979), 54–210.

most remained wedded to the traditional staples of jute, coal, and tea.[4]

Historians have explained this phenomenon in several ways. The view that the main reason for the managing agents' conservatism was a shortage of liquid funds has already been addressed.[5] An alternative explanation, that the British expatriate business community was reluctant to invest in the new industries because it would have brought them into direct competition with manufacturers based in Britain, is intriguing but not supported by any concrete evidence of concern for the position of British manufacturers.[6] The most compelling explanation so far advanced argues that British expatriate businessmen failed to diversify because they lacked their Indian counterparts' knowledge of the Indian domestic markets for which the new industries catered. The British firms chose, therefore, to confine themselves to industries linked to export markets, such as jute and tea, or those which relied on government contracts, such as coal.[7] However, there are weaknesses with these arguments: the successful iron and steel industry, developed largely by Indian capital and management, was both protected by the state and linked to export markets, factors which should have given decisive advantages to British entrepreneurship. Moreover, some of the new multinational enterprises would, initially at least, have had even less knowledge of Indian conditions than managing agency firms. Also, as will be shown in Chapter 4, while the managing agencies may have neglected their market networks within India, and they certainly felt themselves to be ignorant of certain types of industry such as cotton production, they did have some knowledge of internal markets. However, the main challenge to this argument is provided by the statements of the businessmen themselves: it is clear from these that in many cases British businessmen were well aware of the need to diversify and of the new opportunities opening up in inter-war India, but they were

[4] The only British managing agency houses to diversify into modern industrial production on any scale were Gillanders (in copper after the Second World War), and Martin Burn (in iron and steel). Martin Burn possessed a substantial Indian element in its partnership. For the interests of the managing agency houses, see Table 3.

[5] B. R. Tomlinson, 'Colonial Firms and the Decline of Colonialism in Eastern India, 1914–1947, *MAS* 15: 3 (1981), 474. See Chapter 2 for a discussion of this view.

[6] Amartya Sen, 'The Pattern of British Enterprise in India, 1854–1914: A Causal Analysis', in R. K. Ray (ed.), *Entrepreneurship and Industry in India, 1800–1947* (New Delhi, 1992), 109–207.

[7] M. D. Morris, 'The Growth of Large-Scale Industry to 1947', in D. Kumar (ed.), *The Cambridge Economic History of India* (Cambridge 1982), 557–8, 580.

unwilling to contemplate any new enterprise that required serious adaptation of their own particular business style or of the institutional structure of their firms.

The Managing Agencies and Modern Industry

There were undoubtedly objective factors inhibiting managing agencies' diversification into new sectors. The instability of the Indian and international economies contributed to business uncertainty: a boom of 1919–20 was followed by a serious slump between 1920 and 1922; subsequently a period of brief stability in the mid-1920s was followed by a serious depression in 1929–33.[8] This rapid swing from boom to slump in the early 1920s clearly intensified conservative attitudes towards new investment.[9] However, these difficulties were encountered by all businessmen in India. A problem which affected expatriate firms more specifically was the increasing politicization of economic and exchange rate policy, and consequent business fears that greater Indian influence over government would lead to a devalued currency and would ultimately undermine the value of foreign investments.[10] There were also problems affecting particular industries. In the heavy chemical and metallurgical sectors there was a limited market in India throughout the inter-war period which prevented growth, while technological problems in industries such as paper also inhibited development in the 1920s.[11]

However, there were several reasons why investment in new industries was viable and therefore proved attractive to other indigenous, German, and Japanese entrepreneurs. Firstly, many of the new industries were supported by protection; even before the First World War the Government of India had been anxious to develop the indigenous iron and steel industry and had attempted to stimulate enterprise in this area with subsidies, bounties, and guaranteed returns.[12] In 1923 the Government of India introduced a policy of discriminating protection designed to promote certain import substitution industries. Eleven

[8] See Tomlinson, *Political Economy of the Raj*, ch. 2.

[9] For the effect of the failure of several of Bird's investments after the First World War, see Benthall, quoted in G. Harrison, *Bird and Company of Calcutta* (privately printed, 1964), 132.

[10] See Chapter 6.

[11] Morris, 'The Growth of Large-Scale Industry', 631, 633, 638. For the relative profitability of various industries in the period, see Table 2.

[12] B. R. Tomlinson, *The Economy of Modern India, 1860–1970* (Cambridge, 1993), 128–9.

industries were granted protection under this trade regime, including the heavy chemical, paper, sugar, iron and steel industries; government purchasing policy was also reformed in the interests of developing domestic manufacturing.[13] Secondly, although per capita income in India was still very low and possibly declining, the changing structure of demand provided opportunities for light consumer industries: the development of an urban middle class, low food prices, and the construction boom all contributed to demand for local, light industrial manufactures.[14] Thus, even the most sceptical observers of the potential for Indian industrial development would concede that there were opportunities in new industrial development in the inter-war period.[15]

Certainly, there were a few cases of British managing agencies investing in these new sectors: Balmer Lawrie, Bird, and Gillanders, for example, all developed light engineering interests.[16] However, they were generally reluctant to do so, largely, the sources suggest, because diversification would have involved making changes to the structures of their firms which would have challenged the partners' all-important autonomy. In part, this was because entrance into new industries required the flotation of new companies and the negotiation of new agency contracts. After the First World War it was increasingly difficult to secure full managerial control over companies purely by means of legal agency contracts. The increased militancy of shareholders made the negotiation of the legally binding contracts common in the jute and coal industries very difficult, and the only alternative to such contracts was to hold a block of controlling shares in the company.[17] It was becoming more common for shareholders to challenge managing agents' rights to their long-term tenure and their exclusive control over dividend and reserve policy. So, for instance, radically new agency terms were imposed on the Jardine and Begg Dunlop agency houses by their shareholders after the war.[18] To men like Henry Gladstone this was intolerable, for it meant that managing agents would now be expected to prove their worth to shareholders, subject their management methods to shareholder criticism, and, if judged to have failed, possibly be

[13] See ibid. 133–5. [14] Ibid. 138, 145.
[15] Morris, '*The Growth of Large-Scale Industry*', 642.
[16] Tomlinson, *The Economy of Modern India*, 136.
[17] H. Bateson to A. d'A. Willis, 6 Jan. 1925, MSS OG, file 2616.
[18] H. N. Gladstone to H. Bateson, 16 Oct. 1921, MSS OG, file 2609; for another case concerning the firm of Begg, Dunlop and Co., see also B. Eddis to H. Bateson, 19 Oct. 1921, MSS OG, file 2609.

dismissed without compensation.[19] Clearly, to businessmen concerned to maintain full control over the companies they managed and the status that accompanied such autonomy, it was preferable to continue to manage those enterprises for which they already had a long-term contract and these were overwhelmingly in the coal and jute industries. The only sector that replicated these conditions of unchallenged control in the inter-war period was tea, in which Gillanders among others greatly increased their interests during the 1920s.[20]

Gillanders was confronted with this change in the expectations of shareholders when, in 1919, it planned a joint venture with Armstrong and Co., a British engineering firm, to establish a new company which would assemble railway engines and equipment from parts imported from England.[21] Gillanders lost enthusiasm for this project when a similar venture, the Indian Wagon Company, was established by the Indian-owned managing agency firm Martin Burn, on the basis of a managing agency contract which considerably reduced the traditional autonomy of the managing agent from shareholder control. The Burn contract abolished provisions guaranteeing customary agency income and the traditional commission payable to the agent. Most significantly the contract provided that a management fee would only be payable when the new company was in profit.[22] Gillanders believed that managing agency contracts would increasingly take this unattractive form and therefore abandoned the project. In 1920 Gillanders turned down a similar opportunity to invest and manage the Thorneycroft Engineering Co., because the agency terms restricted commission to a percentage of profits and not of output.[23]

An alternative to establishing control by agency contract was to secure it by ownership of shares in the companies the agencies managed. While this was practical in the coal and jute industries, as will be seen, it created problems in highly capital-intensive modern sectors because control would inevitably be diluted. Bird's attempt to become involved in the iron and steel industries illustrates these problems. The iron and steel sector should have been a highly promising one for British agency houses: one of its principal customers was the

[19] H. N. Gladstone to H. Bateson, 16 Oct. 1921, MSS OG file 2609.
[20] A. d'A. Willis to B. Eddis, 23 Aug. 1923, MSS OG, file 2610.
[21] H. N. Gladstone to H. Bateson, 9 Jan. 1919, MSS OG, file 2607.
[22] H. Bateson to H. N. Gladstone, 27 Aug. 1919, MSS OG, file 2607.
[23] B. Eddis to A. d'A. Willis, 22 Oct. 1921, MSS OG, file 2609.

state and for much of the inter-war period the industry enjoyed protection.[24] Tata and Co. had passed through its early troubles by the beginning of the war, and was able to prove that it was possible for an Indian firm to produce high quality iron and steel at competitive prices.[25] Bird's plans to involve itself in iron and steel seemed an obvious strategy, given the firm's existing interests in coal, coke, and limestone. In 1921 the firm considered establishing a new Indian steel company, the United Steel Corporation of Asia, in partnership with the British company Cammell Laird. However, the capital requirement, Rs 20 million, proved prohibitive.[26] When Bird attempted to expand into steel production again in 1935 it was in partnership with Tata, which had established a virtual monopoly in the production of steel in India, with a share of the market which had risen from 14 per cent in 1920 to 68 per cent in 1936/7.[27] In order to discourage an American project to start a new steel works in India, Tata, Bird, and Martin Burn embarked on a collaborative venture to establish a steel enterprise, with Tata taking a 50 per cent share and Martin Burn and Bird taking 25 per cent each. However, there was disagreement over control and as a result Martin Burn broke away to set up its own steel plant in 1937. Although Tata was still willing to continue with Bird alone, Bird was unhappy about being a junior partner in the enterprise and also had doubts about its ability to raise 40 per cent of the capital.[28] As has been described, Benthall did not accept that the firm should become a public company and believed that the firm was capable of raising only Rs 30 lakhs at most, at the cost of up to ten years of partners' profits.[29] So, although he was aware of the long-term future of the steel industry in India, ultimately the maintenance of traditional business practice overrode pursuit of profit.

The importance of control was related to another concern of the managing agents: to keep their capital as liquid as possible.[30] This concern was a major obstacle to investing in the new industries, which required a much larger volume of initial capital and were slow to deliver returns: they prized flexibility and insisted that they should be able rapidly to turn any business investment into cash in order to make new

[24] Bagchi, *Private Investment*, 303–10. [25] Ray, *Industrialization*, 79–80.
[26] Tomlinson, 'Colonial Firms', 468.
[27] Morris, 'The Growth of Large-Scale Industry', 627.
[28] E. Benthall to A. McKerrow, 11 Oct. 1935, MSS Benthall, Box 10.
[29] Harrison, *Bird of Calcutta*, 167.
[30] H. N. Gladstone to A. Gladstone, 25 Sept. 1926, MSS OG, file 2613.

investments or to compensate retiring partners.[31] The British managing agency houses in Calcutta were therefore reluctant to invest large sums of capital in any one new concern, particularly if it was a business that would not generate profits for some time. Gillanders, for instance, regarded ten years as too long to wait for a return. There are many examples of these considerations ruling out diversification: for instance, in 1928 Gillanders was offered the possibility by a British company of establishing a joint venture in road transport. The partners refused on the grounds that it would involve too long term a commitment, even though they acknowledged that this area was profitable.[32]

The managing agencies often adhered to strict rules on the prudent commitment of capital to any one venture. An example drawn from the one industry in which substantial investment did take place during this period, jute, illustrates the criteria that these firms tended to apply in their investment decisions to both traditional and modern sectors of industry. In 1919 Gillanders was having difficulty raising the capital to establish the new Century Jute Mill, which the firm had been planning since before the First World War. Substantial expenditure was needed if Gillanders was to 'maintain an impregnable position' against potentially difficult shareholders. Henry Gladstone decided that the sum required was too great:

> We do not want to tie up Rs. 12,500 in any one company and would prefer to see our holding much smaller and rely for our agency on a long term agreement—30 years say—which could not be disturbed except on compensation.[33]

The point was emphasized in 1922, when Gillanders vetoed the purchase of a coal company, warning against the dangers of excessive 'lock-up' of capital, as the partners put it. Henry Gladstone was quick to reassert the old principles of managing agency finance:

> The wisest and most important axiom of the firm that should be followed is . . . to limit financial obligations to a figure in consonance with the capital and credit of the firm, carefully guarding against any strain on the latter. In the old days we were strictly prohibited from putting more than £10,000 into any one business . . . and you will appreciate how far we have travelled from that point.[34]

31 H. N. Gladstone to A. Gladstone, 25 Sept. 1926, MSS OG, file 2613.
32 H. N. Gladstone to H. Bateson, 19 Mar. 1928, MSS OG, file 2616.
33 H. N. Gladstone to B. Eddis, 24 Nov. 1923, MSS OG, file 2610; see also J. MacDonald to G. D. Mason, 12 June 1924, MSS A. & S. Henry and Co., 86/v/1/4.
34 H. N. Gladstone to A. d'A. Willis, 26 Oct. 1922, MSS OG, file 2609.

The precise amount of capital which the firm was willing to commit to a single concern was explicitly defined in 1925 by Henry Gladstone. The firm had the chance to acquire the managing agency of a new Indian-owned jute mill and engineering works:

> If this agency can be secured for twenty-five years with customary commissions—we shall be happy with only a Rs.300,000 holding. To secure for all time would mean a lock-up of Rs.700,000. which is altogether beyond our ideas.[35]

The size of investment required to establish and control a company in one of the new capital intensive industries was far greater than the sums which firms like Gillanders considered it prudent to 'lock-up'. Moreover there was no guarantee that such investments would be earning a return by the time the partners retired and needed to liquidate their personal investment.[36]

The partners' obsession with control did not only lead to caution over investment; it also led to an unwillingness to become involved in areas with which they were not familiar, and a refusal to rely on hired expertise in these markets. These considerations explain the agencies' failure to become involved in the cotton industry. Of all the expanding sectors of the Indian economy, the cotton industry was the one in which the agency houses could have participated with relative ease. Their failure to do so, which effectively presented Japanese capital with an open door to the Indian market, has long perplexed historians of the period. Amartya Sen has argued that British businessmen in India were reluctant to move into sectors which were already occupied by British 'home' enterprise.[37] Yet while this may have had some significance in the late nineteenth century, when Lancashire exports to India were at their most buoyant, it is not clear that it remained true after 1918. In fact, there are numerous instances in the 1920s, and again in the 1940s, of British firms investigating the possibility of entering cotton manufacture.

In 1925, when the Indian economy was emerging from the post-war slump, Gillanders considered that the currently depressed state of the cotton mill industry in Bombay would allow it to establish itself in the industry cheaply. Basil Elkins, then head manager in Calcutta, regarded

[35] H. N. Gladstone to A. d'A. Willis, 9 July 1925, MSS OG, file 2612. Rs 300,000 was approximately £22,500; Rs 700,000 was approximately £52,600.

[36] H. N. Gladstone to A. d'A. Willis, 13 Sept. 1922, MSS OG, file 2609; J. MacDonald to G. D. Mason, 15 Apr. 1924, MSS A. & S. Henry and Co., 86/v/1/4.

[37] Sen, 'The Pattern of British Enterprise', 117–20.

cotton manufacture as, 'fundamentally one of the soundest and potentially prosperous sectors in India'.[38] The London head office was interested enough to commission a full report on the business methods of Bombay, but decided that despite potential profitability this diversification would be unwise largely because there were large differences in the organization of the jute and cotton trades, particularly in marketing and credit arrangements. The principal objection was not to cotton in itself and the fact that they would be competing with British exporters; rather they were deterred by the fact that their lack of familiarity with the market could only be rectified by buying expertise.[39]

Not only did partners' anxiety to maintain control over all aspects of marketing inhibit diversification; their suspicion of technical experts, who were expensive to employ and difficult to supervise, also militated against involvement in technically advanced industry. The partners' attitude to the sugar manufacturing industry illustrates this aspect of their behaviour. Sugar manufacturing became a very profitable industry, largely because of the 190 per cent *ad valorem* rate of duty on imported sugar imposed in 1930, although prices began to fall by the end of the 1930s owing to excess capacity.[40] The potential of the industry was appreciated at an early stage by both Gillanders and Bird.[41] Bird was briefly involved in the sugar industry between 1920 and 1924, but abandoned it because it was unable to master the technology: Benthall observed that the firm was 'too inexperienced to foresee the problems of this enterprise'.[42] Similarly, Gillanders dismissed the possibility of entering this profitable sector out of hand and Henry Gladstone acknowledged as early as 1919 that: 'sugar in India has a big future . . ., but of course, we are totally ignorant of the business and precedents show that *buying our experience can be expensive*'.[43]

In 1927 Gillanders was offered another joint venture in engineering tool manufacture with the Halifax firm of J. Sagar and Company. Henry Gladstone's reaction was the same as his reaction to sugar: 'Without properly qualified men we feel that we might just as well leave a technical business like this alone.' This point was again made

38 Sen, 'The Pattern of British Enterprise', 117–20.
39 H. Bateson to B. Eddis, 1 Mar. 1928, MSS OG, file 2614.
40 Morris, 'The Growth of Large-Scale Industry', 636.
41 Harrison, *Bird of Calcutta*, 122; H. N. Gladstone to W. Grazebrook, 10 June 1920, MSS OG, file 2608.
42 Ibid.
43 H. N. Gladstone to W. Grazebrook, 10 June 1920, MSS OG, file 2608.

when investment in the cotton textile industry was being considered in 1928:

> we are in such ignorance of all the essentials of cotton mill management that we have not the confidence to buy one on our own account . . . we doubt very much if ordinary business prudence would justify us in going into a manufacturing business with all the ins and outs of which we are so profoundly unacquainted. We could not hope to make good without buying our experience and probably losing a good deal of money in the process and my inclinations are admittedly against the idea, but rather to conserve our money and enterprise.[44]

The records of these businessmen, then, suggest that while there were some sound economic reasons for their caution towards the new sectors, they were primarily motivated by a concern with predictability of income through agency contracts, control, and capital liquidity, and in particular an unwillingness to employ experts, partly because of their cost and partly because they posed a challenge to the autonomy of the partnership. Other firms, Indian and multinational, were less inhibited by these considerations and were eager to exploit these new opportunities.[45] Managing agencies, meanwhile, were overwhelmingly committed to traditional sectors, and in particular to the jute and coal industries. This was partly because their forecasting and analysis of future trends was poor, but also because they had a preference for industries which guaranteed maximum control, even if they were not profitable in the long term.

The Traditional Industries: Jute and Coal

Most British managing agency firms in Calcutta increased their traditional interests in jute in the inter-war period.[46] There were attempts in the early 1920s to restrict new investment in new mills in order to raise prices and the jute cartel, the Indian Jute Mill Association (IJMA), of which all European mills were members, renewed its ban on new mill

[44] H. Bateson to B. Eddis, 1 Mar. 1928, MSS OG, file 2614.

[45] For multinational enterprise, see B. R. Tomlinson, 'Continuities and Discontinuities in Indo-British Economic Relations: British Multinational Corporations in India, 1920–1970', in W. J. Mommsen and J. Osterhammal (eds.), *Imperialism and After: Continuities and Discontinuities* (London, 1985), 154–67. For the contrasting case of Indian entrepreneurial attitudes to technicians, see Morris's discussion of Tata in 'The Growth of Large-Scale Industry', 628–9.

[46] H. N. Gladstone to H. Bateson, Mar. 1924, MSS OG, file 2610; Harrison, *Bird of Calcutta*, 175 ff.

construction in 1921.[47] However, throughout the 1920s many managing agency houses defied this restriction. The degree of covert expansion among mills which participated in the IJMA was so great that when a loom census was taken in 1927 it was found that since the ban of 1921 mill capacity had increased by over 20,000 looms.[48] Even when the slump and depression hit the industry in the 1930s British mills continued to extend their capacity and the British managing agency houses continued to increase their stake in them by purchasing equity.[49] Jute remained one of the very few sectors in which British expatriate firms in Calcutta continued to invest throughout the inter-war period and even after the Second World War.[50]

There were reasons for remaining in the jute industry. Firstly, the Bengal jute industry had enjoyed modest profitability before the First World War (between 2.7 per cent and 15 per cent on paid-up capital), had been extremely successful during the war, and had earned profits of about 27 per cent during the 1920s.[51] Secondly, the managing agencies had invested a great deal of capital in jute, and by the 1920s that investment had been completely amortized in many cases, boosting profitability compared with new ventures;[52] thirdly, in the inflationary conditions of the early 1920s importing plant and machinery from the United Kingdom proved so expensive that it would only be contemplated for industries which promised certain returns. Fourthly, it was hoped that the existence of a cartel, however weak, would allow some price-fixing as it had before the First World War, enabling the industry to support its excess capacity.

However, by the late 1920s, it had become clear that there was chronic overcapacity and that world demand would not recover; in the 1930s profits fell to on average less than 10 per cent return on capital. By 1927, French, German, and Belgian competition in jute manufacturing affected the industry and Indian mills increasingly ignored cartel agreements. Also the development of substitutes in grain packaging, such as containerization and paper, and alternative raw jute

[47] O. Goswami, *Industry, Trade and Peasant Society* (New Delhi, 1991), 105; see also Harrison, *Bird of Calcutta*, 176.

[48] Goswami, *Industry, Trade and Peasant Society*, 112–13.

[49] Harrison, *Bird of Calcutta*, 176–81.

[50] T. Gladstone to A. Gladstone, 15 Oct. 1944, MSS OG, file 2634.

[51] Morris, 'The Growth of Large-Scale Industry', 572, 612.

[52] Goswami, *Industry, Trade and Peasant Society*, 104.

supplies in Java and Bihar, all affected demand for Bengali jute.[53] The collapse in world demand initiated by the slump and subsequent depression intensified the crisis among the Calcutta mills. Labour relations also deteriorated throughout the period, attracting the attention of the government to working conditions in the industry, which objected to attempts to drive down wages at times of political instability.[54] In 1934, a report commissioned by the managing agents pointed to a serious decline in demand for Calcutta's jute products.[55]

The managing agents, however, refused to accept that these developments implied long-term decline. Rather than realizing that overcapacity demanded a reduction in commitments, most managing agency houses maintained that there were no fundamental problems in the industry. They considered that the real difficulty was the increase in costs that had taken place during the inflationary boom. Once labour costs had been reduced, it was argued, demand would recover and they would recapture lost markets; as Henry Gladstone explained in 1919, once 'the workers have felt the pinch of hunger, prices will fall'.[56] It was also believed, even by those who were breaking the cartel, that the IJMA would be successful in the long term at maintaining an adequate price level, and when a new IJMA agreement was signed in 1921 it was widely believed that the industry had 'entered a haven of perpetual safety'.[57]

The managing agents also had an excessively complacent attitude towards both foreign and Indian competition. Although there were signs as early as 1919 that Indian entrepreneurs were preparing to enter the industry, the British did not believe that any new rivals could hope to compete with the older mills. With machinery prices at three times their pre-war level in 1919, a new mill cost over Rs 20,000 per loom to establish. A mill operating with such a cost structure could not hope to compete with older European mills, whose machinery costs had already

[53] Indian Central Jute Committee, *Report on the Marketing of Jute and Jute Products* (Calcutta, 1941), 133–4; R. W. Brock, 'Bengal and its Jute Industry', *Asian Review*, 30: 103 (July 1934), 532–40; D. Chakrabarty, *Rethinking Working Class History: Bengal 1890–1940* (Princeton, 1989), 36–8.

[54] R. N. Gilchrist, note, 7 Apr. 1932. WBSA, Com. Dept. Com. Br., Sept. 1932, B. 87–134.

[55] S. G. Barker, 'Scientific Research in Indian Jute Manufactures', *Journal of the Royal Society of Arts*, 86: 4454 (Apr. 1938), 475.

[56] H. N. Gladstone to H. Bateson, 23 Oct. 1924, MSS OG, file 2612.

[57] Harrison, *Bird of Calcutta*, 143. See also H. N. Gladstone to B. Eddis, Mar. 1924, MSS OG, file 2610.

been fully depreciated, and whose costs were therefore only Rs 2–3,000 per loom. One commentator asserted:

> The old mills are so strongly placed now that they could regard fresh competitors without dismay, and indeed, many of them could extend their present loomage with the prospect of reducing overhead costs below anything that an entirely new self-contained mill could hope to approach.[58]

Crucial to this calculation was the expectation that the new Indian jute mills would abide by the working hours and capacity restrictions of the IJMA; clearly if they did not, then they would be in a position to undercut the European mills. Until 1927 it was reasonable to assume that Indian mill owners would comply with the IJMA regime. Birla Brothers and S. Hanuman, for example, were both signatories of the new IJMA agreement of 1921.[59] Yet even in the late 1920s, when it became clear that some of the new Indian mills would not be so amenable to IJMA discipline, British firms remained supremely self-confident. Edward Benthall, for instance, asserted that 'good management will always beat such people'.[60] Similarly in 1930 the chairman of the IJMA still believed that:

> Jute is only grown and harvested in Bengal and 60% of it is manufactured within a radius of 30 miles of this room at much less cost than anywhere else in the world and we should not hesitate to take advantage of our fortunate position to ensure that there should be no loss of manufacture.[61]

The managing agents, therefore, continued to invest in jute, partly as a result of poor information about the market for the product and an excessive faith in their ability to manipulate prices in such a way as to secure sufficient demand. However, it is also clear that jute was favoured because it was an industry which lent itself to a 'merchant' style of business, allowing a great deal of autonomy and control. The jute mills managed by the agencies did not require a great deal of technical expertise and the agents did not, therefore, need to employ many expensive experts to whom they would have been forced to delegate authority. Although technological improvements could, and probably should, have been made in the 1920s, the Calcutta industry was not technologically dynamic and relied on primitive technology

[58] Harrison, *Bird of Calcutta*, 143.
[59] Goswami, *Industry, Trade and Peasant Society*, 105.
[60] E. Benthall to G. Godfrey, 31 Dec. 1928, MSS Benthall, Box 1.
[61] *IJMA Report, 1930* (Calcutta, 1931), 9.

derived from early nineteenth-century Scottish flax-spinning.[62] Partners had been resistant to technological innovation, such as the electrification of mills,[63] and the technological backwardness of the industry was commented on by an expert from Britain commissioned by the IJMA to analyse the industry's problems.[64]

The jute industry was also attractive because it allowed partners greater control than they would have enjoyed in other industries. Security of managerial tenure in jute mills was guaranteed by long-term agency contracts that had been negotiated before the First World War. These contracts usually gave the managing agent a thirty year lease on the management of the company, a management commission payable on output rather than profit, and also commissions on buying raw materials and selling finished product.[65] Such contracts could usually only be overturned by a two-thirds majority of shareholders, and then only on pain of substantial compensation being paid to the ousted agents. The ultimate guarantee of security was the legal enforceability of these contracts.[66] For this reason the British managing agents felt that in jute mill management they had a secure income backed by British law. This was to become very important after the First World War when Indian shareholders were becoming increasingly militant, as Henry Gladstone of Gillanders observed:

> I cannot believe that any court could upset a long term agreement, say even for thirty years, negotiated in the light of day and forming part of the constitution of the company.[67]

These generous agreements, however, were much less common for new ventures after the First World War, a situation which provided a strong incentive to the agents to confine their new industrial investment to the expansion of companies which they already managed: in the jute industry they tended to expand the number of looms in their mills, rather than establish new mills. Hence, Henry Gladstone opposed the building of a new mill, as 'we could no longer be assured of the control

[62] S. G. Barker, *Report on the Scientific and Technical Development of the Jute Manufacturing Industry in Bengal with an Addenda on Jute, its Scientific Nature and Information Relevant Thereto* (Calcutta, 1935), 41.

[63] B. Eddis to H. Bateson, 26 Apr. 1924, MSS OG, file 2610.

[64] Barker, 'Scientific Research', 479; Chakrabarty, *Rethinking Working Class History*, 39.

[65] H. Bateson to A. d'A. Willis, 6 Jan. 1925, MSS OG, file 2616.

[66] P. Lokanathan, *The Industrial Organisation of India* (London, 1935), 124.

[67] H. Bateson to W. Grazebrook, 24 Oct. 1919, MSS OG, file 2607.

of the enterprise. I would hesitate to start a company of 25% us and 75% Indian shareholding'.[68]

The coal industry, like the jute industry, was attractive largely because it allowed the agency houses to maintain control, although the agencies' erroneous forecasts of profitability also played a role. Coal mining was the second most important industrial interest of European firms in Calcutta; like jute, coal continued to be an area for new investment by British firms between the wars. Gillanders, for example, sought new coal properties to manage throughout the 1920s.[69] It increased its shareholdings in likely properties with a view to bidding for their management contracts, even in collieries that had not paid a dividend for three years.[70] Bird, Yule, and other managing agencies were just as anxious to extend their coal interests.[71] However, by the late 1920s a number of agency houses were forced to close several pits, because of problems of overproduction and price cutting. Even so, throughout the inter-war period firms continued to buy prospecting leases and to survey potential new coalfields.[72] Like jute, interest in the coal industry was still relatively strong after the Second World War.[73]

While the managing agency houses' misinterpretation of the long-term development of the market for jute may explain their continued involvement in the industry, at least until the mid-1920s, it is more difficult to account for the continuing appeal of the coal industry. The growth of the coal industry in India had never been as smooth as that of jute. The industry had always been affected by serious difficulties: the poor quality of Indian coal, chronic transport crises, unpredictable demand, and wildly fluctuating prices.[74] It is true that the First World War had brought large profits; however, when this boom ended, the industry found that it had lost its old export markets and in some of its home markets was unable to compete with subsidized South African coal.[75]

[68] J. Mackay to G. Campbell, 9 Apr. 1929, MSS Mackinnon Mackenzie, Inchcape Collection, MSS 27,823; H. N. Gladstone to B. Eddis, 13 Oct. 1921, MSS OG, file 2609.

[69] H. N. Gladstone to B. Eddis, 23 Apr. 1927, MSS OG, file 2613.

[70] H. Bateson to B. Eddis, 3 May 1923, MSS OG, file 2610; see also W. Grazebrook to B. Eddis, 24 Apr. 1927, MSS OG, file 2613.

[71] Harrison, *Bird of Calcutta*, 139–43. [72] Ibid. 144.

[73] A. Gladstone to T. Gladstone, 9 May 1944, MSS OG, file 2633; see also Harrison, *Bird of Calcutta*, 232.

[74] C. Simmons, 'The Indian Coal Industry between the Wars', *Salford Papers in Economic History* (Salford 1982), 4; Ray, *Industrialization in India*, 115.

[75] Simmons, 'Indian Coal Industry', 6.

It also faced competition from collieries owned by the government; throughout the inter-war years there was overcapacity, and prices and profits were generally low, until the industry revived during the Second World War.[76] Throughout the inter-war period, gross profits in the coal industry were often non-existent and were certainly rarely above 5 per cent of paid-up capital.[77]

Yet, despite these difficulties, coal mining retained its appeal for the British managing agent. The agents justified their continued involvement with persistently erroneous predictions of future expansion in demand: firstly they argued that the Indian railways would continue to be a reliable customer willing to negotiate long-term contracts in the Indian railways; secondly, they believed that the coal export markets lost during the war as a result of the government's prohibition on exports would be soon recovered;[78] thirdly, they considered that the coal industry could successfully be organized into a cartel, in the way they believed the jute industry had been. However, such optimism was misplaced: the state-owned railways used their buying power to force prices down.[79] Similarly, the frequent attempts to organize British-managed collieries into a common front which would match the market power of the main Indian purchaser of coal, the Government of India, and in this way raise prices, proved unsuccessful as the industry was too competitive.[80] Price fixing was only achieved during the Second World War with the assistance of the government.[81] By the mid-1920s, the long-term problems of the coal industry were apparent, but, as with jute, there were other considerations which influenced decision-making, which outweighed any doubts about long-term viability. As with the jute industry, coal was appealing because the agency agreements covering collieries had already been established for some time. Also, the initial costs of a mine were relatively small, so that it was possible for an agency with a small investment of capital to hold a controlling shareholding in a coal company; British managing agents tended to hold far larger share interests in their mines than they did in their jute companies.[82] Andrew

[76] See Tomlinson, *The Economy of Modern India*, 123; Ray, *Industrialization in India*, 116. [77] *Indian Investor Yearbook, 1938–1939* (Calcutta, 1939).

[78] President's Speech, Indian Mining Association, *Annual Report* (1923), vol. i, p. vii.

[79] Harrison, *Bird of Calcutta*, 139; Simmons, 'Indian Coal Industry', 6.

[80] H. Bateson to H. N. Gladstone, 18 June 1925, MSS OG, file 2612; W. Thomas to Benthall, 12 Dec. 1928, MSS Benthall, Box 2; President's Speech, Indian Mining Association, *Annual Report and Correspondence* (1927), i. 6.

[81] Tomlinson, *The Economy of Modern India*, 123.

[82] Bagchi, *Private Investment*, 165. See Table 4.

Yule and Co., for example, held over 35 per cent of the equity in most of their collieries, compared with an average of less than 25 per cent in their jute mills. The capital needed to set up a colliery company was only one-fifth of that required for a jute mill and so for the same absolute expenditure a firm could obtain almost total security.[83]

The managing agencies continued to invest in traditional industries, such as jute and coal, despite clear indications that they were in decline by the 1920s. Similarly, they failed to diversify into new industries, despite the opportunities offered by protection, changes in the structure of Indian demand, and the example of successful Indian rivals. While their decisions can be partially explained as the consequence of poorer information and forecasting skills than some of their Indian competitors, it is difficult to avoid the conclusion that in many cases they were aware of these new opportunities but consciously avoided them because to have embraced them would have involved challenging many of their ideas of what constituted acceptable and sound business behaviour. They did not like to invest in schemes in which the managing agency contract did not provide them with a secure income and clear control. Nor did they wish to involve themselves in industries which required knowledge of complex technologies and in which they would have to delegate authority to experts. A second requirement, closely connected to the concern with control, was that the industry should not require too much long-term investment of liquid capital. Thus investment in sectors which might provide profit in the long term was not the main concern of the managing agents.

These prejudices against new industries were noted by contemporaries. The Report of the Indian Industrial Commission of 1916–18 criticized the managing agencies for being

> unduly conservative in their methods of business . . . They have been charged with a lack of enterprise and an unwillingness to follow up lines of development naturally proceeding from the expansion of operations in their own specialised industries . . . Generally speaking industries based on technical science have been disregarded . . .[84]

[83] O. Goswami, 'Sahibs, Babus and Banias: Changes in Industrial Control in Eastern India, 1918–1950', in R. K. Ray (ed.), *Entrepreneurship and Industry in India, 1800–1947* (Delhi, 1992), 239.

[84] *Report of the Indian Industrial Commission, 1916–1918* (New Delhi, 1918), 9.

The report concluded that 'they have been inclined to develop commerce rather than industry and have been . . . less helpful than might have been the case in clearing the way for continuous industrial progress'.[85] However, as will be seen in the next chapter, even in their commercial and trading activities the managing agents' inflexible approach to business harmed their interests.

[85] Ibid.

4
Commerce and Finance

> All industry is beneficial to the state and community, but I desire to see 'industrial commerce' separately considered from 'mercantile commerce', the two being antagonistic. The first only is of benefit to the state, whereas the merchant's view must necessarily be confined to buying in the cheapest and selling in the dearest markets.[1]
>
> W. Ironside, senior partner, Bird and Co., 1916

In addition to their large industrial interests the British managing agency houses still had substantial trading, commercial, and financial interests. They maintained their traditional links with the export sector and they still accounted for much of the Indian commodity export trade and for the importation and distribution in India of consumer goods manufactured in the West. After the First World War they also began to offer their sales and marketing networks to multinationals, which employed them as selling agents. However, by the 1930s, the managing agencies found that their commercial business, like their industrial interests, was stagnating. They were not only losing their pre-eminence in the import–export sector to Indian rivals, but were also suffering from competition in their sales and distribution business as multinationals increasingly established their own sales networks.

The managing agency houses' poor performance in these sectors was, in part, the consequence of structural economic change. Their traditional import and export trades were severely affected as India ceased to be a classically colonial economy which exported commodities and raw materials and imported basic finished goods, particularly cotton piece-goods. As India industrialized, patterns of imports changed to favour both capital and modern consumer goods. Transformations in the structure of Indian trade were further accelerated by the Depression which brought about a dramatic decline in commodity exports in the

[1] W. Ironside, evidence to the *Report of the Indian Industrial Commission, 1916–1919*, (Calcutta, 1919), ii. 889.

1930s.[2] The viability of the selling agencies was also affected by these structural changes: partly as a result of the GoI's tariff policy British firms began to establish their own manufacturing plants in India, with their own distribution and marketing departments; they could therefore dispense with the services of the managing agencies.[3]

However, it will be suggested here that these structural changes did not present insurmountable obstacles to business success. The traditional import–export trade may have been in long-term decline, but the selling agencies do seem to have had a promising future as the managing agents and other commentators admitted. A more serious problem facing the managing agencies may have been the inadequacy of their knowledge of the Indian internal market, but again this problem was not as insuperable as some historians have implied.[4] The managing agencies had always maintained contacts with Indian businessmen and links with the internal market, and they were in a position to mobilize these in order to benefit their sales agency business. However, they chose not to make use of these opportunities, partly because they were unwilling to invest in modern market research and distribution networks and partly because of their traditional prejudice against reliance on technical or specialist staff with the expertise necessary to market these new products.

The Trading Businesses

In the period before the First World War importing cotton piece-goods from Manchester to Calcutta had been a safe and profitable business for British managing agency firms.[5] The Indian market was expanding,

[2] For these developments see B. R. Tomlinson, *The Political Economy of the Raj* (London, 1979), 30–6; D. Kumar (ed.), *The Cambridge Economic History of India* (Cambridge, 1982), 837–41.

[3] For the growth of multinationals in India, see B. R. Tomlinson, *The Economy of Modern India, 1860–1970* (Cambridge, 1993), 143; R. K. Ray, *Industrialization in India, 1914–47* (New Delhi, 1979), 271–6; O. Goswami, 'Sahibs, Babus and Banias', in R. K. Ray (ed.), *Entrepreneurship and Industry in India, 1800–1947* (Delhi, 1992), 253–8. See also Table 5.

[4] Tomlinson, *The Economy of Modern India*, 146–7; M. D. Morris, 'South Asian Entrepreneurship and the Rashomon Effect, 1889–1947', *Explorations in Economic History*, 16 (1979), 352.

[5] After the end of the First World War the cotton import trade was hit by tariff protection in India. In 1910 Gillanders' main Lancashire piece-goods supplier had shipped 83,000 pieces, in 1925 the same firm was shipping only half that volume; see H. Bateson to H. N. Gladstone, 8 Apr. 1927, MSS OG, file 2613. The best analyses of the demise of free trade in India as it affected the cotton trade include Clive Dewey, 'The End of the

and it had been possible for both Lancashire and the rapidly growing Bombay textile industry to find outlets there. The piece-goods trade was ideally suited to the managing agencies, as it involved relatively low capital commitment, brought swift returns, and much of the risk was borne by Indian *banians*.[6] While the First World War had affected India's trade severely, when hostilities ended imports soared.[7] This proved, so the British agency houses concluded, that the downturn in trade had been the consequence of supply problems rather than of any significant reduction in demand.[8] Hence they attempted to expand their import and export business; in the early 1920s it covered fields as diverse as emerald and pearl importing for the Jaipur aristocracy to leather and hide exporting from Madras.[9] However, the most important mercantile business was the cotton piece-goods department. For Bird, the most important trading sector was raw jute and sacking exports.[10] In 1919 and 1920, imports surpassed their pre-war peak and for the first time exceeded the value of exports. Accumulated Indian demand was exacerbated by an unprecedentedly high exchange rate which brought orders for immense quantities of foreign manufactured imports.[11] For Gillanders, the trading conditions of the post-war period seemed full of promise and the firm made a major commitment to increasing its trading and agency business by opening new branch offices in Bombay, Karachi, and Rangoon, expanding its staff of both European and Anglo-Indian employees to run them.[12]

As the 1920s progressed, the buoyant trade in commodities began to falter.[13] Business in cotton piece-goods was particularly depressed, for a number of reasons: firstly, Lancashire cotton piece-goods now faced

Imperialism of Free Trade: The Eclipse of the Lancashire Lobby and the Concession of Fiscal Autonomy to India', in C. Dewey and A. G. Hopkins (eds.), *The Imperial Impact* (London, 1978); B. Chatterji, 'The Lancashire Cotton Trade and British Policy in India, 1919–1939', Ph.D. Thesis, University of Cambridge, 1978.

6 T. Timberg, 'Three Types of Marwari Firm', *IESHR* 10 (1973); H. Bateson to A. d'A. Willis, 3 Apr. 1927, MSS OG, file 2613.

7 Tomlinson, *The Political Economy of the Raj*, 30.

8 Bengal Chamber of Commerce, *Annual Report and Correspondence* (1920), i. 175.

9 H. N. Gladstone to J. Grazebrook, 6 Mar. 1919, MSS OG, file 2607.

10 G. Harrison, *Bird and Company of Calcutta 1864–1964* (privately printed, 1964), 97 ff., 145 ff.

11 K. N. Chaudhuri, 'Foreign Trade and the Balance of Payments (1757–1947)', in *The Cambridge Economic History of India*, ii. *1757–1970* (Cambridge, 1982), 837–8.

12 H. N. Gladstone to B. Eddis, 3 Aug. 1925, MSS OG, file 2612. See also Harrison, *Bird of Calcutta*, 92.

13 Chaudhuri, 'Foreign Trade and the Balance of Payments (1757–1947)', 838–9.

additional competition in the Indian market from Japan; secondly, the Government of India's revenue crisis led to the imposition of import duties without a countervailing excise on Indian piece-goods; finally, boycotts of British cotton imports became a central part of Gandhian *swadeshi* or 'India-made' campaigns which continued throughout the 1920s and 1930s, and Indian goods now had a political as well as a tariff advantage.[14] However, the problems the managing agencies encountered in this area of their business were not solely the result of poor trading conditions or political discrimination. The Government of India's Civil Law Commission of 1924–5 reported a tendency for India's commodity trade with Europe and Britain to be taken over by Indian merchants:

> As a result of the spread of education and knowledge among the Indian mercantile community, a distinct tendency towards direct trade between Indian importers and overseas suppliers has been one of the features of the last few years . . . particularly in the inland distributing centres such as Delhi, Amritsar and Cawnpore.[15]

British managing agency houses were thus increasingly being displaced from many sectors by more effective Indian rivals: by the early 1940s 75 per cent of the jute export trade, which had been the preserve of European businessmen, was in the hands of Marwari firms.[16] It is clear that this was in part the result of British firms' inability to adapt to changing circumstances in the Indian market: they were inflexible in their business practice and remained committed to Calcutta trade and credit customs even when operating in areas where local traditions were very different.

The managing agents' inflexible response to different local business conditions is, perhaps, best illustrated by Gillanders' attempts to establish itself as a trader in Karachi and Bombay after the First World War.[17] Gillanders had attempted to enter the Karachi cotton and wool trades in the 1920s, but had discovered that the firm would have to make far larger credit advances to wool sellers than was common in similar

[14] For a full analysis of the Indo-British cotton trade, see B. Chatterji, *Trade, Tariffs and Empire: Lancashire and British Policy in India, 1919–1939* (New Delhi, 1992), 145–7, 160–3.

[15] *Report of the Civil Law Commission, 1924–25* (Calcutta, 1925), 202.

[16] Indian Central Jute Committee, *Report on the Marketing of Jute and Jute Products in India* (Calcutta, 1941), 90–3.

[17] Gillanders entered the Karachi wool trade in 1922. W. B. Gladstone to B. Eddis, 13 Aug. 1925, MSS OG, file 2612.

transactions in Calcutta.[18] The senior partners were unwilling to adapt their traditional business practice to a different environment. Henry Gladstone observed that:

> We have done somewhat more business with Karachi this year and it is to be hoped that with the somewhat involved dealing which goes on in that market, direct sales on the credit and commission accounts will be of a satisfactory character . . . We cannot give Taylor [the Karachi assistant] the liberty of action he would like in a risky business such as this, [because] in the desire for commissions he might one day be carried off his feet . . .[19]

Thus, the firm was only prepared to risk £2,000 of capital, which, as the firm was later forced to admit, was too little to compete in a small market dominated by a few large, entrenched firms.[20] The firm soon shut down its trading business in Karachi entirely.[21] By 1929 the senior partner, Henry Bateson, dismissed the trading in Karachi as wholly speculative, arguing that 'there is very little straight business in Karachi'; the main difficulty with Karachi, however, was not dishonesty, but different credit conditions from those prevailing in Calcutta, which required greater delegation of power, combined with closer supervision.[22] Bateson's retirement and the consequent change in partnership was followed by an even more cautious policy. Albert Gladstone, who became the firm's senior partner asserted that the priority must be to 'get the business onto a more liquid basis. We must draw in our horns and cut all speculative and competitive lines that require *complex* or *expensive* supervision.'[23]

Another example of the managing agents' unwillingness to adapt to new forms of business was their long-standing antipathy to the jute futures market (the *futka*). The *futka* was a Marwari institution, established in 1905, in which traders speculated in raw jute, and its success was eventually to enable the Marwaris to exclude Europeans from the trade in which they had been dominant.[24] The managing agencies, and particularly their London offices, resolutely refused to participate in the futures markets until the late 1930s and, as a result, in 1935, while European firms were unable to sell their jute stocks anywhere, Indian

18 W. B. Gladstone to B. Eddis, 13 Aug. 1925, MSS OG, file 2612.
19 W. B. Gladstone to B. Eddis, 30 Sept. 1926, MSS OG, file 2612.
20 H. Bateson to B. Eddis, 9 June 1927, MSS OG, file 2612.
21 H. Bateson to B. Eddis, 16 June 1928, MSS OG, file 2614.
22 H. Bateson to M d'Kellock, Dec. 1928, MSS OG, file 2614.
23 A. Gladstone to M. d'Kellock, 11 Apr. 1929, MSS OG, file 2615.
24 O. Goswami, *Industry, Trade and Peasant Society* (New Delhi, 1991), 85–6.

agents, using the *futka,* were increasing turnover and even beginning to displace British firms from the traditional Dundee market.[25] The Calcutta office of Bird protested in vain at the conservatism of the London partners:

> [It] is all the more disappointing as *futka* has been the mainstay of the Marwari baler for some years and is largely responsible for their advance . . . on more than one occasion we have felt ourselves slipping backwards . . . We have confidence in our joint venture, but it must be realised that each year competition is becoming keener and we must move with the times in our endeavours to maintain our position in the trade.[26]

It could be argued that this conservative approach to new markets and methods was the direct consequence of these firms' unwillingness to reorganize their internal control and supervision mechanisms. When these firms were involved in complex futures markets and hedging operations, it became clear that their control and supervision mechanisms were too primitive to prevent fraud. So, for instance, in late 1929 the Gillanders lost over £100,000 as a result of the fraud by one of the European assistants in the Bombay exports department who had been able to make export commitments in advance without the senior partners' knowledge and without first having bought the goods to be exported, secured shipping space, or obtained a bankers guarantee that the contracts would be honoured.[27] The London partners were forced to accept that they lacked adequate supervision and control structures and that

> new methods of control and safeguards need to be adopted, such as prevail, not in such business as we have been conducting for a century, but in the great retail establishments which now so generally exist—a very different matter.[28]

Nevertheless, they principally blamed the fraud on non-structural factors, particularly the reprehensible character of many of the younger assistants.[29]

More damaging than the managing agents' failure to adapt to new forms of business practice was the neglect of their good relations with

[25] A. Wighton to A. Murray, MSS A. & S. Henry and Co., 86/v/12/3; E. Benthall to G. B. Morton, 27 June 1935, MSS Benthall, Box 10.

[26] G. B. Morton to E. Benthall, 25 June 1935, MSS Benthall, Box 10.

[27] The junior assistant concerned was Malcolm Gladstone, the nephew of W. B. and H. N. Gladstone. See A. Gladstone to M. d'Kellock, 11 Apr. 1929, MSS OG, file 2615.

[28] A. C. Gladstone to M d'Kellock, 18 Apr. 1929, MSS OG, file 2615.

[29] H. Bateson to M. d'Kellock, 23 Mar. 1929, MSS OG, file 2615.

those Indians upon whom they relied for knowledge of the internal market and access to the unorganized credit market. The *banians* were an essential element in several areas of the import and export trade. They were responsible for selling piece-goods in the Indian market, particularly in the cotton trade and they also acted as guarantee brokers to European firms, guaranteeing the creditworthiness of Indian buyers by providing large interest-free or low-interest loans or 'deposits', which the agents used as working capital. They were remunerated by commissions on sales (usually of 1 per cent).[30]

After the First World War British firms found it increasingly difficult to secure the services of the *banians*. This was because many of their traditional *banians* had become very wealthy, and were unwilling to accept the low commissions offered for their services.[31] The British were therefore sometimes forced to employ as their *banians* men of more limited wealth than had been their practice, who had to borrow most of the money needed to secure the deposit which British firms required.[32] This often meant that the *banian* was no longer a free agent, able to find the best buyers for the agents' goods. Gillanders realized that this was damaging business and was forced to cut the deposit required by the *banian* by over two-thirds.[33]

However, this strategy still failed to re-establish a long-term relationship with these vital Indian middlemen, who often established their own independent commercial enterprises which competed successfully against the managing agents. Gillanders, for instance, found it impossible to compete with a former *banian* who had been able to exclude it from the lucrative sugar trade.[34] The rise of the Marwari *banians* was the consequence of long-term changes in the structure of the Indian economy, but it might have been possible for the agents to accommodate these changes more successfully than they did, by offering a more equitable form of partnership to their *banians*. *Banians* were clearly interested in buying shares in companies managed by the managing agencies' firms and even on occasions used their shareholdings to force themselves on to the boards of jute companies, but relations between

[30] See Timberg, 'Three Types of Marwari Firm', 134–5.

[31] The now very wealthy Marwaris were no longer interested in doing business on the disadvantageous terms that had prevailed before the war. H. Bateson to H. N. Gladstone, 30 Sept. 1926, MSS OG, file 2613

[32] A. Wighton to A. Murray, 3 Oct. 1929, MSS A. & S. Henry and Co., 86/v/7/17; A. Gladstone to B. Eddis, Dec. 1927, MSS OG, file 2614.

[33] Ibid.

[34] H. Bateson to B. Eddis, 30 Sept. 1926, MSS OG, file 2613.

the managing agents and *banians* were often cool.[35] The agents' refusal to dilute their control, and particularly share power with Indians, ultimately damaged their most important links with Indian commodity markets.

In the jute trade, the managing agents attempted to avoid using Indian middlemen completely, relying instead on their London partners to act as their brokers in Europe and on independent European brokers in Calcutta.[36] This practice was, as partners in Calcutta came to recognize, an unprofitable one, as both the London partners and European brokers demanded a higher commission than Indian brokers. Bird's Calcutta branch urged its London partners to drop their commission as it was putting the firm's business at risk.[37] So George Morton, the senior partner in Calcutta, argued that the firm was

> at a serious disadvantage. London's commissions are affecting our joint trading interests from the point of view of turnover and are a severe encumbrance on the working prospects of the company.[38]

However, despite these complaints the preference for less effective and more expensive European brokers continued into the 1940s, and in 1946 Thomas Gladstone was still determined to use 'first class European brokers' even if it was 'doubtful that they will be able to persuade the [jute] sellers to deliver'.[39]

Worsening relations with Indian middlemen also help to explain the rapid deterioration in the managing agents' knowledge of the market. This was particularly evident in the cotton import department. By the mid-1920s Gillanders' Manchester cotton shippers, with whom it had done business since the late nineteenth century, became increasingly disaffected with the firm's service.[40] They complained that the Calcutta firm was not giving them information on the quality of cloth demanded in Calcutta and that they never acknowledged the samples sent to them. They even threatened to move their business to an Indian cotton broker if matters did not improve.[41] The London partners accepted that these difficulties had occurred because the Calcutta office had never had a

[35] Goswami, *Industry, Trade and Peasant Economy*, 109.
[36] Timberg, '*Three Types of Marwari Firm*', 135–6.
[37] G. B. Morton to E. Benthall, 25 June 1935, MSS Benthall, Box 10; see also MSS Macneill and Barry Ltd., 27, 851.
[38] Ibid.
[39] T. Gladstone to A. Gladstone, 1 Oct. 1946, MSS OG, file 2635.
[40] W. B. Gladstone to B. Eddis, 13 Feb. 1923, MSS OG, file 2610.
[41] B. Eddis to W. B. Gladstone, 24 Aug. 1927, MSS OG, file 2613.

senior partner with sufficient expertise in the piece-goods trade and therefore decisions over the choice of *banian* had been devolved to branch managers who could not agree on the strategy to adopt.[42] However, no serious attempt was made to ensure that they had greater expertise.

Poor knowledge of markets even seems to have affected the managing agencies' international trading operations, in which historians have suggested they had a comparative advantage owing to their superior knowledge of foreign markets.[43] Since the 1880s British agencies had dominated the export of jute to Britain, Europe, and North and South America. However, they were clearly losing this advantage: by the early 1930s the Calcutta office was complaining that 'London advices on market conditions are too brief . . . and often are at variance with actual conditions . . .'[44] Calcutta had requested that their main agents in Britain should send them regular, weekly reports directly, rather than through the London office, but this was not done.[45] In June 1935 the situation was the subject of a lengthy memorandum from the Calcutta office, which told the London partners that they were being overtaken by the Marwaris who were using modern technology to give them advantage in rapidly transmitting information. According to this report, the London office had no conception of how efficient 'modern Marwari businesses are', especially the large operators:

> they use the telephone to communicate direct with their connections abroad. They have direct representation in London, Dundee and New York and a tendency to encourage direct continental business through Hamburg. The Indian baler is kept very closely posted with market information by his home representative.[46]

It is clear from these examples that failure to invest in technology and information and to modify traditional and increasingly inappropriate business methods contributed to the loss of foreign trading interests by the managing agents.

The Selling Agencies

Given the priority attached by the managing agents to maintaining the liquidity of their capital, they found it attractive to increase their

[42] W. B. Gladstone to B. Eddis, 8 Apr. 1927, MSS OG, file 2613.
[43] Morris, 'South Asian Entrepreneurship and the Rashomon Effect, 1800–1947', 350–1.
[44] Ibid. [45] Ibid. [46] Ibid.

business as the Indian selling agents of British manufacturers exporting to India, an activity which required little investment of capital.[47] After the First World War managing agents secured contracts to supervise the sale and distribution of manufactures either exported to or produced in India under the management of the British parent company. There were several advantages to this form of business: the managing agent was not required to commit any capital to the manufacturing side of the business, while office expenses would usually be paid by the exporting firm. It also brought a steady income to the branches which many of the firms had established in Delhi, Madras, Karachi, and Rangoon to exploit their knowledge of the Indian domestic market and improve their import–export trade. Furthermore, it was a means by which the managing agents could secure a foothold in the more advanced industrial sectors of the Indian market, such as chemicals and engineering, without having to employ expensive technical staff. If the product was a technically advanced one then the home manufacturer was expected to provide the requisite specialists.[48] By the early 1930s, these selling contracts agencies accounted for a substantial proportion of the income of many of these firms and by end of the Second World War Gillanders had become heavily dependent on it for revenue.[49] Similarly, the selling agencies were becoming a larger part of Bird's business in the inter-war period.[50]

However, the selling agency business was not to be the salvation that the British firms had hoped for and the agencies eventually lost many of their most important customers: Shaw Wallace, for example, lost the

[47] Between the end of the First World War and 1934 Gillanders had acquired, amongst others, the selling agencies of 14 British and American insurance companies, 2 paint companies, 1 explosives company, 6 telephone and cable companies, 3 shipping firms, a steel and rope products company and a cement company. See memorandum, 12 Apr. 1933, MSS OG, file 2439. Bird had numerous selling agencies based in Calcutta but with up-country offices in Delhi, Kanpur, and Lahore; these included the agencies for 2 cement companies, an asbestos company, a vegetable ghee producer, a sugar producer, and a hog bristles manufacturer. See Harrison, *Bird of Calcutta*, 225 ff.

[48] As was the case with the Ormul Products agency which Gillanders ran for the British firm of John Taylors. W. B. Gladstone to B. Eddis, 24 Feb. 1927, MSS OG, file 2613.

[49] For example when Gillanders lost the selling agency for the Associated Portland Cement subsidiary in 1945, it was calculated that this business had brought in Rs 1.3 lakhs. Thomas Gladstone observed that its loss would be 'a great setback'. Similarly the loss of the ICI selling agency was regarded as a serious problem. See T. Gladstone to A. Gladstone, 11 May 1945, and B. Elkins to A. Gladstone, 23 Nov. 1944, MSS OG, file 2634. For the source of Gillanders's profits, see Table 8.

[50] Harrison, *Bird of Calcutta*, 225.

Burmah Oil agency in 1924, Gillanders gradually lost its ICI agencies in the late 1920s and early 1930s and Bolton Brothers lost the agency of Lever Brothers in the late 1920s.[51] This was partly the result of long-term structural economic trends. British manufacturers found it increasingly attractive to establish their own manufacturing plants in India under the new tariff regime and the logic of such enterprises may have led them to develop marketing and distribution networks which would obviate the need for independent selling agents.[52] Yet the decline of the managing agents in this sector cannot be wholly explained by such causes. Firstly, it was not inevitable that firms which decided to manufacture in India would establish their own market and distribution networks. Indeed in the 1920s, when direct foreign investment was beginning, it seemed likely that British manufacturers newly based in India would be content to use the services of the managing agents. This was certainly the impression given to Gillanders by the new head of ICI, Sir Harry McGowan, and also by Unilever to their agents, Bolton Brothers.[53] As late as 1944, Distillers, the British industrial chemicals company, was still considering the use of British managing agency houses to distribute the products of a planned Indian manufacturing plant.[54] Firms providing financial services also considered links with managing agents to be valuable. The Prudential Insurance Company, for example, sought a close alliance with Gillanders in 1919, which already had a well-established insurance agency business.[55] Secondly, the establishment of a tariff regime did not necessarily close the Indian market to foreign exporters, given the expansion of the Indian consumer market. As a memorandum of the Board of Trade noted in 1937 with concern, both continental European and American exporters of consumer goods were having considerable success in establishing a presence in the Indian market. The Board of Trade believed that this owed much to their use of more effective distribution and marketing

[51] H. Townend (ed.), *A History of Shaw Wallace and Co.* (London, 1965), 171–7; see also Goswami, 'Sahibs, Babus and Banias', 256.

[52] For the debate on the causes of the expansion of British direct foreign investment in the first half of the twentieth century see G. Jones, 'Expansion and the Growth and Performance of British Multinationals before 1939: The Case of Dunlop', *EcHR* 37 (1984); J. M. Stopford, 'The Origins of British-based Multinational Enterprises', *Business History Review*, 48, (1974); S. J. Nicholas, 'British Multinational Investment before 1939', *Journal of European Economic History*, 11 (1982).

[53] H. N. Gladstone to A. Gladstone, 28 Oct. 1926, MSS OG, file 2613.

[54] Memorandum from Basil Elkins, 23 Nov. 1944, MSS OG, file 2634.

[55] Memorandum from L. S. Taylor of Gillanders' Insurance Department, 13 Mar. 1919, MSS OG, file 2607.

agents, and urged British exporters of these kinds of goods to make more use of selling agents in India.[56] Given these conditions, the managing agencies would seem to have been ideally placed to play an important role in rebuilding Anglo-Indian trade links on new foundations, concentrating on the distribution and importation of more advanced consumer and intermediate goods, for which there was clearly a market by the late 1930s.

The managing agents, however, failed to exploit these opportunities because, as has already been seen for the industrial sphere, they were strongly attached to a particular style and form of business and believed that success in new fields would require the sacrifice of their traditional business culture. They were, therefore, unwilling to invest any of their own capital in these ventures, whether in technical expertise, new methods of marketing, or market research. The initial attraction of the selling agencies for managing agency partnerships was their cheapness: capital would not have to be risked and commissions would be earned with relatively little effort. So, for instance, Gillanders considered that its alliance with the Prudential was particularly advantageous because it could make steady commission income by selling Prudential policies.[57] However, it became clear that if Gillanders was to consolidate relationships with manufacturing exporters or financial groups and ensure the long-term future of selling agency contracts, it would have to make some commitment of its own capital by acquiring a share of the new plant or company to be floated. As the changing relationship between Gillanders and Associated Portland Cement, a British-owned cement company, shows, it was increasingly expected that selling agents should make a capital contribution to the manufacturing company. In 1922 the firm acquired the selling agency for the new Sone Valley Cement Company which was a subsidiary of the Associated Portland Cement Company, having previously failed to gain control of the company because it was unwilling to commit the volume of capital that would have been required to secure it.[58] By the 1940s Gillanders was also expected to invest capital if it was to maintain even the selling agency, and when in 1944 the selling agency had to be renegotiated, Gillanders had the choice either to lose a valuable

[56] Board of Trade, 'Note on Indian Trade Policy', CRD 1–1–9, 1937.

[57] Henry Gladstone urged the Calcutta firm to form a close alliance with the Prudential because it had 'been a very useful connection in the past in financial matters and seems determined to make good in India'. H. N. Gladstone to B. Eddis, 23 Sept. 1925, MSS OG, file 2612.

[58] B. Eddis to H. N. Gladstone, 25 Feb. 1922, MSS OG, file 2609.

business, which had brought the firm Rs 1.3 lakhs in profit over the previous five years, or to buy a 30 per cent share in the company. Gillanders decided against the investment and lost the agency.[59]

Another difficulty of the selling agency strategy which became increasingly clear to the managing agents was the manufacturers' expectation that the managing agent should be in a position to provide technical expertise in order to sell and service new, advanced products. These issues contributed to the deterioration of the relationship between Gillanders and ICI. In the early 1920s, Gillanders acted as the sales agents for both the Nobel Explosives and the Duco Paints companies, both of which brought a steady and valuable income to the firm. When in 1924 ICI was formed, and Duco and Nobel became its subsidiaries,[60] it was feared that these agencies would be lost, as Brunner Mond, now one of ICI's constituent parts, already had its own organization in Calcutta and Bombay. However, ICI was willing to continue to use managing agencies until 1944, in large part because of a close personal relationship between McGowan and Gladstone.[61] In the interim, Gillanders had the opportunity to establish a reputation as an agency with the technical competence to support ICI's products, and the Calcutta partners were aware that the company would have to overcome its reluctance to avoid the employment of specialists. As Eddis urged:

> avoid indenting for experts to be sent out by the company and rely on your own men: the more you can get the technical side of the business into your own hands the better, and the greater the difficulty there will be for the company to change their representatives.[62]

However, the firm appears not to have improved its technical personnel significantly, and it was frequently embarrassed as a consequence. Gillanders attempted to avoid the employment of a technical manager at the Duco Paints agency with predictably poor results. One notorious example was the importation, on Gillanders' advice, of quantities of a railway engine paint that resolutely refused to dry in Indian conditions.[63] It is not surprising that eventually ICI decided to remove the

[59] B. Elkins to A. Gladstone, 11 May 1945, MSS OG, file 2634; for a similar case, see G. D. Mason to A. Murray, MSS A. & S. Henry and Co., 86/v/24/15.

[60] A. Gladstone to H. N. Gladstone, 9 Dec. 1926, MSS OG, file 2613.

[61] Gladstone was aware of McGowan's 'somewhat sentimental concern' for Nobels' foreign agents. See H. N. Gladstone to A. Gladstone, 28 Oct. 1926, MSS OG, file 2613.

[62] B. Eddis to H. N. Gladstone, 5 Nov. 1928, MSS OG, file 2614.

[63] A. C. Gladstone to B. Eddis, 14 Apr. 1929, MSS OG, file 2617.

agencies, and in November 1944 the company sent out its own experts to be attached to ICI India Ltd. ICI now planned to extend their explosives and paints business in India and felt that it needed 'full technical knowledge of Indian conditions'.[64]

The failure of the managing agencies to take the acquisition of technical expertise seriously enough is also evident in the decision of Distillers, which was interested in opening a plant to manufacture industrial alcohols and solvents, not to employ the managing agents.[65] Distillers sent out an emissary in 1944 to make recommendations on the relative merits of a partnership with either established British firms or an Indian collaborator and as Albert Gladstone of Gillanders discovered, he was not impressed by the British agency houses.[66] Although Gillanders' senior partner in Calcutta, Basil Elkins, had tried to convince Distillers of the importance of selling and distribution experience in India, Distillers' representative countered that the most important consideration was to have a technically qualified manager in charge. This lack of technical expertise was to frustrate Gillanders' efforts to set up partnerships with a number of other British manufacturers including Pilkington Glass and the Bradford Dyers Association.[67]

In the field of financial services also, managing agents did not have sufficient expertise to maintain relationships with large British companies. In 1928, two of Gillanders' London partners were summoned by the Managing Director of Prudential for, as Gladstone put it, a 'full dress bullying' and a 'homily on the principles of life insurance'. Gillanders found it difficult to respond effectively to the Prudential's criticisms of its conduct of the insurance business because, as Gladstone was forced to admit, 'we have neither the figures nor the knowledge to do so'. He conceded that Gillanders was not offering a good or cost-effective service and that there was only 'a small margin of advantage between their carrying on under . . . [Gillanders'] banner or cutting adrift and establishing their own organisation'.[68]

Unwillingness to invest in expertise and to sustain the selling agencies by other improvements was related to the managing agencies'

[64] Memorandum by Basil Elkins, 23 Nov. 1944, MSS OG, file 2634.
[65] Memorandum by Basil Elkins, 23 Nov. 1944, MSS OG, file 2634.
[66] Memorandum from Basil Elkins, 23 Nov. 1944, MSS OG, file 2634.
[67] Memorandum on the post-war business strategy of the firm by Thomas Gladstone, 1 Dec. 1944, MSS OG, file 2634.
[68] H. Bateson to B. Eddis, 22 Dec. 1927, MSS OG, file 2613.

more general refusal to concentrate their interests in one area. This reflected their 'merchant' approach to business, which prized freedom of manoeuvre and liquidity of capital above all else. Hence, they insisted on maintaining a large number of relationships and resisted pressure to form more exclusive partnerships with individual British firms. If these ventures had been inherently risky or unstable this might have been an understandable business strategy, but often long-term partnerships were being offered in what partners recognized were sound businesses.

So, for instance, Gillanders' relationship with the Prudential was soured from the beginning by the managing agent's refusal to establish an exclusive partnership with the insurance company. Each side seems to have had different expectations: while the Prudential wanted to form a new insurance company in India in partnership with Gillanders, Gillanders preferred to sell the Prudential's policies together with those of its competitors.[69] The partners realized that the Prudential would not tolerate this policy. As Henry Gladstone admitted:

> the impression they have about Gillanders and Co. is that they are half-hearted, and are not really particular whether they give the business to the Prudential or the Phoenix [Insurance Company] . . .[70]

However, rather than modifying their policy, Gillanders decided to view the relationship with the Prudential as a short-term one and to exploit it rather than seek to make it more permanent:

> we feel pretty sure that our connection with the company on the present lines will not be a very prolonged one . . . Our object must be to make as much as we can during these early years when our assistance is more or less indispensable.[71]

The concern that the managing agencies' insistence on representing as many different firms as possible would lead to conflicts of interest and lack of commitment seems to have been important in deterring other British manufacturers from using their selling agencies. Hence, the Distillers' Company representative in 1944 considered that 'development in India in the future . . . should definitely be along the lines of

[69] B. Eddis to H. N. Gladstone, 23 Sept. 1925, MSS OG, file 2612.
[70] H. N. Gladstone to B. Eddis, 24 Sept. 1925, MSS OG, file 2612.
[71] H. N. Gladstone to B. Eddis, 2 Feb. 1928, MSS OG, file 2614.

separate companies whose management would be *exclusively* concerned with the products they were manufacturing'.[72]

By the end of the Second World War it was apparent that the British managing agents in Calcutta had not succeeded in making their selling services sufficiently attractive to British manufacturers and had not been prepared to alter the character of their firms to accord with manufacturers' needs. As early as the 1920s Gillanders had been determined not to allow these agencies to compromise the traditional character of the firm and Albert Gladstone, the new senior partner in London in 1929, complained that 'these agencies are tending to alter the whole structure of the firm's business'.[73] He believed that the firm had involved itself in too much 'over-complicated' selling businesses, arguing, for example, that the Firestone Tyre agency had required an excessive increase in staff and organization in Bombay and Burma and was difficult to control. Gladstone preferred to abandon this business rather than reorganize the internal procedures of the firm.[74]

So, unwilling to commit themselves to developing new industries in India, on the grounds that it would require excessive investment and risk, the managing agencies decided to expand their commercial and trading interests. However, these firms wasted the advantages of their unique and well-established links with Indian middlemen and, through them, with internal trading networks, of their own branch agencies, and their connections with British exporters and manufacturers. There were structural changes in international trade and the Indian domestic market which undoubtedly damaged the firms' traditional business; these changes, however, did not leave the managing agencies without opportunities, but required adaptation and entrepreneurship. The managing agents did not lack entrepreneurial energy and pursued new opportunities vigorously, but they resisted adaptation. In particular, they were unwilling to establish close, long-term relationships with both Indian and British manufacturers and traders. They also resisted commitment of capital and improved technical infrastructure. All of these choices were related to their underlying concern to maintain their autonomy. The following chapters show that just as the managing agencies found it difficult to adapt adequately to

72 Memorandum from Basil Elkins, 23 Nov. 1944, MSS OG, file 2634.
73 A. Gladstone to M. d'Kellock, 23 May 1929, MSS OG, file 2615.
74 Ibid.

economic change, so their response to social and political changes was strongly affected by their traditional approach to business. Their concern for exclusivity and autonomy was particularly influential in their relations with emerging Indian entrepreneurs.

Part III

Expatriate Enterprise, Race, and Politics

5

British Business, Race, and Economic Nationalism

> In the past we have failed to imbue the people of India with a sense of equality, with a feeling that we stand together as fellow citizens . . . This may seem a trifling matter to write about at such length but . . . so much bitterness of feeling has been engendered by lack of sympathy, understanding and knowledge on the part of non-officials . . .[1]
>
> Geoffrey Tyson, 1932

One of the most significant changes in the environment in which expatriate firms operated during the inter-war period was the growing economic and political challenge from Indians. Nationalist rhetoric, at this time, became particularly concerned with the supposedly exploitative behaviour of British business in India and especially that of the managing agencies. At the same time newly successful indigenous business groups emerged to compete with the British, and several Indian businessmen became active participants in nationalist politics. While the most prominent Indian business groups before the First World War had been the Bombay cotton mill owners, a community dominated by the predominantly loyalist Parsi community, after the war new groups became more prominent, including the Marwaris of Calcutta and the Gujarati mill owners of Ahmedabad, many of whom strongly sympathized with the Gandhian Congress.[2]

These business communities presented expatriate business with a number of challenges. Most alarmingly, they posed a direct threat to

[1] G. Tyson, *Danger in India* (Calcutta, 1932), 111–16.

[2] For the politics and activities of the Marwari community, see T. Timberg, *The Marwaris: From Traders to Industrialists* (Delhi, 1978); for the Gujarati community, see D. Tripathi, *The Dynamics of a Tradition: Kasturbhai Lalbhai and his Entrepreneurship* (Delhi, 1981); for the Bombay merchants, see A. D. D. Gordon, *Businessmen and Politics: Rising Nationalism and a Modernising Economy in Bombay, 1918–1933*, (Delhi, 1978). On Indian business and politics in this period, see C. Markovits, *Indian Business and Nationalist Politics, 1931–39* (Cambridge, 1985), chs. 2, 3, 4; R. K. Ray, *Industrialization in India* (New Delhi, 1979), 305–38.

the British business élite's control of their businesses as many of the new Indian entrepreneurs, particularly in Calcutta, began to acquire large shareholdings in the concerns managed by the agency houses. During both world wars many Marwaris made substantial speculative fortunes, and in the periods after each world war used some of their capital to build up holdings in jute mills, coal mines, and other enterprises controlled by the managing agencies; they were then able to insist on being given seats on the boards of many of the managed companies, from which position they were able to demand changes in dividend policy and other aspects of management. The new activism of Indian business groups was not, however, confined to the purely business sphere. Thus, an increased involvement in politics and a close relationship with Congress enabled some Indian businessmen to promote legislative bills designed to limit the sphere of operation of British firms on the grounds that they excluded Indian capital, management, and employees.

Even though it would have been in their commercial interests to form alliances with dynamic Indian firms which could offer them expertise and capital, and in their political interests to indianize their firms, the British managing agents' response was, predominantly, a conservative one. Their principal concern remained the preservation of their racial exclusivity until just before independence and even when they did begin to indianize their firms they did so reluctantly. These attitudes and behaviour led to an even sharper divergence between business and the state on the issue of race than had been the case before 1914. The GoI's commitment to indianization became particularly marked after the First World War: the preamble to the 1919 Government of India (Reform) Act included a commitment to accelerate indianization of the civil service, and in 1924 the Royal Commission on the Higher Civil Services recommended that half of those selected for the ICS by direct recruitment should be Indians. In the army, indianization was slower but the Skeen Committee of 1926 recommended that the officer corps of the Indian army should be half Indian by 1952.[3] It is therefore not surprising that attempts by business to enlist the state's protection against

[3] J. Brown, *Modern India* (Oxford, 1994), 246 f.; D. C. Potter, *India's Political Administrators, 1919–1983* (Oxford, 1986), ch. 2; A. Ewing, 'The Indian Civil Service, 1919–1924: Service Discontent and the Response in London and in Delhi', *MAS* 18: 1 (1984), 33–53. For the evolution of official attitudes to the role of Indians in the Indian Army see M. Sinha, *Colonial Masculinity* (Manchester, 1995), 69–99.

forces which favoured its indianization were not successful, as will be seen in Chapter 7.

It might be argued that the threat from economic nationalists was so great that any concessions by British business would have been pointless. Some historians have certainly claimed that the economic and political activities of Indian businessmen were linked as part of a co-ordinated business strategy of economic nationalism, designed to promote the modernization of the Indian economy and the advancement of indigenous business.[4] The implication of this view is that expatriate business was under sustained attack throughout the inter-war period by a force committed to excluding all foreign capital from India by political and economic means; in such circumstances, British business had little hope of long-term survival. However, the campaign for the indianization of British business by no means gained the whole-hearted support of even nationalist businessmen and Congress did not formally call for discrimination against British business.[5] British business was not under serious threat of permanent exclusion from the Indian economy, neither did British businessmen ever believe that it was. Indeed, many influential nationalist businessmen were eager to establish alliances with the managing agencies.

It has also been suggested that the managing agencies felt no incentive to establish close relations with Indians because they had no intention of staying in India beyond independence; because they were gradually disinvesting from the end of the 1930s their cool attitude towards indianization and contact with Indian business was not surprising.[6] The absence of information on these companies' remittances to Britain make it difficult to come to any conclusions about disinvestment. However, as will be shown here, the evidence that is available suggests that while some managing agency houses were clearly not committed to remaining in India most of the agency houses

[4] For this interpretation, see B. Chandra, *Imperialism and Nationalism in India* (Delhi, 1979); A. Mukherjee, 'The Indian Capitalist Class and Foreign Capital, 1927–1947', *Studies in History*, 1: 1 (1979), 105–48, A. and M. Mukherjee, 'Imperialism and Growth of Indian Capitalism in the Twentieth Century', *Economic and Political Weekly*, 12 March 1988, 531–46; P. Patnaik, 'Imperialism and the Growth of Indian Capitalism', in R. Owen and B. Sutcliffe (eds.), *Studies in the Theory of Imperialism* (London, 1972), 214; Ray, *Industrialization in India*, 292–338; A. K. Bagchi, *Private Investment in India, 1900–1939* (Cambridge, 1972), 196–215.

[5] For the ambivalence of Indian business towards the nationalist movement, see Markovits, *Indian Business and Nationalist Politics*, ch. 3.

[6] Bagchi, *Private Investment*, 92; Ray, *Industrialization in India*, 14, 248.

intended to stay in India for the foreseeable future throughout the inter-war period and even at the height of the mass nationalist agitations. It would seem, therefore, that rather than being the consequence of a calculation of political and economic advantage, the hostility of the managing agency partners to political and social liberalization is more comprehensible in the context of their attitudes towards race and social status discussed in Chapter 1. When placed in such a context it is clear that, while the rhetoric of racial exclusivity and difference became increasingly rare among British officials and other groups in colonial society, the agency house partners' continued commitment to a particular style of business and a specific type of employee possessing 'character' helped to justify their continued use of such arguments.

Race and Indianization

It was certainly common for British businessmen throughout this period to defend their resistance to indianization using the language of character and well-established notions about the differing characteristics of various communities in India.[7] According to these views, very few, if any Indians, had the character required for business, with the possible exception of the Parsis.[8] So, for instance, Frank Russell, a Calcutta businessman, wrote:

> . . . ultimately in every activity, commercial, political or any other lack of character—no matter how supple the brain may be—will bring any man down. Although the Hindu has infinitely greater brain than the Muslim, he does not compare with him in either character or physical courage . . . The one essential factor must be that we should send out to India homecountrymen, whether to serve in government or in commerce, possessing the highest traditions of British character.[9]

[7] For British ideas of the differences between Indian groups, see R. Inden, *Imagining India* (Oxford, 1990); B. S. Cohn, 'Representing Authority in Victorian India', in E. Hobsbawm and T. Ranger (eds.), *The Invention of Tradition* (Cambridge, 1983), 165–209; D. Washbrook, 'Economic Depression and the Making of "Traditional" Society in Colonial India, 1820–1855', *TRHS* (1993), 237–63; B. S. Cohn, 'The Census, Social Structure and Objectification in South Asia', in B. S. Cohn, *An Anthropologist Among the Historians and Other Essays* (New Delhi, 1987).

[8] See O. Jenkins, interview, IOLR, MSS Eur. T. 100/1–2. For the historical background to Parsi entrepreneurship in India, see A. V. Desai, 'The Origins of Parsi Enterprise', in R. K. Ray (ed.), *Entrepreneurship and Industry in India, 1800–1947* (New Delhi, 1992), 99–109; D. Tripathi, 'The Parsis', in D. Tripathi (ed.), *The Business Communities of India: An Historical Perspective* (New Delhi, 1978), 34–51.

[9] M. R. Russell to J. C. C. Davidson, Davidson papers, C 560, 23 Feb. 1939.

Indians were generally regarded as untrustworthy and lacking in leadership qualities. The head of one firm, for example, claimed in 1942 that he had attempted to promote Indians, but the experiment had been unsuccessful because Indians were unsuited, in his opinion, to supervisory posts.[10] Indians who had been well educated were generally considered particularly poor leaders because they were too clever, effete, and refined; as one managing agency partner explained:

People held back [from recruiting Indians to senior posts] in the 1930s in preference for the young Britisher who was prepared to take his coat off and get on with it . . . the feeling persisted that the young Indian was inclined to look around for some menial to do the dirty work.[11]

Owain Jenkins also expressed the businessman's mistrust of the educated Indian, and the educated Bengali in particular:

I found soldiers easier than clerks, because of their better sense of humour and ease of communication with Europeans; whereas there were always problems with Bengalis, because of shades of meaning . . . the Bengalis have no aptitude for business . . . while the Englishman was cheap and trouble free and if you fired him you didn't get a lawsuit on your hands.[12]

Albert Gladstone similarly emphasized the untrustworthiness of Bengalis:

There seems to be something lacking in the Bengalee character which makes the race unfitted to have any control of other people's money, whether invested in banks, insurance companies, industrial concerns, or anything of a similar nature.[13]

Given these attitudes, it is not surprising that the managing agents for the most part resisted indianization of their firms until the 1940s. Indians occupied either menial clerical posts or the lowest of the junior executive positions, for example in the claims departments of inland shipping.[14] Where the partners had more liberal attitudes there were early experiments in indianization, and in the early 1930s Yule

[10] T. Gladstone to A. Gladstone, 25 Sept. 1942, MSS OG, file 2632.

[11] R. Foster, interview, IOLR, MSS Eur. T. 30; for the idea of the 'effeminate Bengali', see Sinha, *Colonial Masculinity*, introduction.

[12] O. Jenkins, interview, IOLR, MSS Eur. T. 100/1–2.

[13] A. Gladstone to H. N. Gladstone, 4 Jan. 1927, MSS OG, file 2613.

[14] For example, see interview with Mr Wilfred Bannerman of McNeill Barry, IOL, MSS Eur. R.T. 80/1–2; for the indianization of other firms in the early 1940s, see A. Sloan (an employee of Shaw Wallace), recorded memoir, IOL, MSS Eur. T. 124; A. C. Pointon, *Wallace Brothers* (London, 1974), 73.

established a scheme for recruiting and training Indian senior assistants.[15] However, even when indianization was pursued Indians were not promoted to senior positions. The Imperial Bank, for instance, claimed to have begun its indianization policy in 1922, but by 1941 the highest position an Indian had reached was agent in Lyallpur; it was argued that Indians were best suited to positions in small branches owing to their willingness and ability to go personally to the bazaars and canvas Indian business.[16]

Real efforts were only made to indianize staff in the 1940s when circumstances forced the partners to do so. The shortage of European assistants caused by the enlistment of many young British assistants during the war, the realization after 1942 that independence was imminent, and the recognition that business would not be protected by the British government in an independence settlement, led many managing agents to accelerate indianization.[17] However, even at this late stage the partners were reluctant to appoint Indian staff to senior positions. In 1945 Yule and Co. envisaged that Indians would fill only half of its senior grade positions[18] and, as late as 1948, Bird reported that indianization was being rapidly accomplished, but only at the lower levels of the firm.[19]

As pressures for indianization increased, a divergence between the attitude of the partners in London and those in Calcutta became evident in some firms. Albert Gladstone, the senior London partner of Gillanders, had been impressed by the quality of Indians recruited into the ICS and was aware of the difficulty and expense of recruiting British staff, particularly managers of jute mills. He also seems to have believed that it was now possible to recruit Indians who were of better character than the kind of European technicians who could now be attracted to India. He wrote:

> As regards the *Jute Mill* industry little or no attempt has been made by European managed concerns to Indianise them. This, I think, is a pity. The

[15] P. Tandon, interview, IOLR, MSS Eur. T. 127.

[16] Confidential memorandum from head office, 12 July 1943, Inchcape Collection, MSS Binny, file 25,318.

[17] In 1942 Cripps made it clear to the business community that the constitutional safeguards included within the 1935 Government of India Act would not be defended by the British state when independence came. For a more detailed discussion of this, see Chapter 7.

[18] As reported by Bhaskar Mitter, interview, in S. Jones, *Merchants of the Raj* (Basingstoke, 1992), 86 f.

[19] Based on note by G. Morton, 12 May 1946, MSS Benthall, Box 7.

type of man who comes out from Scotland to the Mills, as you know, is very often not a desirable type and he is expensive and difficult to deal with. I feel that a large part of the supervisory staff could be Indianised with success and that this should receive our attention after the War.[20]

Thomas Gladstone, however, writing from Calcutta, protested that the ICS was not a good model as 'the ICS Indians are a very mixed lot, there are some good ones certainly, but whether they would be suitable for high positions in a firm like ours is doubtful'.[21] In general, Indians of the right character for senior positions could not be found:

. . . we have in effect Indianised our senior staff to an appreciable extent, but we have discovered no one of outstanding merit, nor any who can safely be placed in a position of command. They can all do Junior European Assistants' jobs and no more.[22]

He went on to argue that Indians were particularly unsuitable for positions which involved supervision of other staff, such as the jute mills; it was much safer to employ Indians in jobs such as accounting, which did not require managerial skills:

The *Jute Mills* Department is unsuitable for an Indian Assistant and up until recently, anyway, the *Insurance Department* has had a full complement of European experts and good Indian insurance men are difficult to obtain . . . The *Tea Department* is not prima facie a suitable Department for an Indian Assistant owing to the nature of the personnel with whom it has to deal. *Banking* and Accounts offer a more promising field, but up to date we have not been very successful. Here again, however, there are possibilities.[23]

When the managing agencies did recruit Indians, they emphasized the importance of character, interest in sport, and social background, rather than the more academic criteria stressed by the ICS. An education at a public school was particularly prized. Prakash Tandon was an accountant with a degree from Manchester University who had applied for positions at Bird, Gillanders, and Yule in 1939. He failed to secure a position partly, he believed, because 'in none had indianisation yet become accepted policy', and partly because he was a

20 A. Gladstone to T. Gladstone, 20 Jan. 1943, MSS OG, file 2633.
21 T. Gladstone to A. Gladstone, 12 Feb. 1943, MSS OG, file 2633.
22 T. Gladstone to A. Gladstone, 25 Sept. 1942, MSS OG, file 2632.
23 T. Gladstone to A. Gladstone, 25 Sept. 1942, MSS OG, file 2632.

specialist accountant rather than a 'generalist', but also because he did not have the right social and educational background:[24]

> I could always tell from the questions they asked whether the emphasis was on the skill I possessed, or who I was and where I came from . . . Some had taken on the occasional Oxford and Cambridge blue, the son of a high court judge or senior ICS officer, but it was more as an adornment or concession to influence.[25]

On the whole, therefore, the managing agency houses tried to recruit Indians of a comparable social and educational background to their British recruits or 'young men of good family and university degrees', as one former Indian employee described them.[26] Similarly, Tandon quoted one of his friends, Roshan, who had a position in an agency house in the early 1940s

> Look at me, a pass degree, always barely scraped through; but of course, Oxford and a Blue make you almost pukka.[27]

It was clear to Roshan that the managing agencies applied a very different set of criteria to the ICS. Mimicking his employer, he said:

> I don't think Indians are yet fit to hold responsibility in commerce and industry. I concede that they can help in government, and the start the army has made with them is not unpromising, but industry, you know, is different.[28]

Tandon remarked sardonically that 'Indians might be ready to govern, but not to keep the books'.[29]

Prakash Tandon was eventually given a position in a multinational company, Lever Brothers. As will be seen, multinationals generally had a more liberal approach to recruitment of Indians in this period, but even they seem to have considered 'character' and connections to be less important than academic ability.[30] Raj Chatterjee, one of the first Indians to be appointed to a senior position in Imperial Tobacco in 1938, had failed the ICS examination; however, his father had been a member of the Indian Central Legislative Assembly and was on 'back-slapping' terms with the man who recruited Chatterjee. He had also been educated at Kings College and the LSE.[31] According to R. N. Sen, a future senior partner of the accountancy firm Price Waterhouse, the

[24] P. Tandon, IOLR, MSS Eur. T. 127.
[25] Prakash Tandon, *Beyond Punjab* (London, 1962), 15.
[26] H. C. Bannerman, interview, IOLR, MSS Eur. T. 80.
[27] Tandon, *Beyond Punjab*, 30–1. [28] Ibid. [29] Ibid.
[30] See Chapter 8. [31] R. Chatterjee, interview, IOLR, MSS Eur. T. 15.

use of these non-professional criteria of recruitment led to poor appointments:

> The new recruits who were apprentices for the covenanted staff were smart young men in their early twenties. Most of them had to pay a drinks bill of nearly Rs. 300 a month and always carried a cigarette in their hand. Many lost their jobs over time. The recruitment policy did irreparable damage to the management of these companies.[32]

The very small group of Indians with public school educations and 'character' who were deemed suitable for a career in a British business house helps to explain why the indianization of these firms was so slow. The treatment of Indians once they had been appointed also helps to account for their poor representation in the managing agencies. Until the middle of the war, racial and social barriers were enforced rigidly, in both clubs and businesses.[33] Even businesses which were outside the agency house system, such as Price Waterhouse, provided segregated dining and washing facilities for executives, and one British assistant who had married an Anglo-Indian woman was forced to take all his meals separately.[34] Indians also received lower salaries than British employees at a similar level, and it was common to pay a 'local rate' which was lower than the standard rate.[35] When Sen joined Price Waterhouse in 1940 the company was quite open about its discriminatory policies and when he threatened to resign his senior replied, 'where will you go? There will be discrimination in every European office'.[36]

In 1942 the unofficial colour bar in many firms was informally ended, partly as a result of the Cripps mission and in response to press criticism.[37] Sen describes the manner in which this was done:

> The British officers spread themselves out one day to the desks of the Indian officers just before lunch. They then offered to go to lunch together after a wash and almost pulled the Indians into the European toilets.[38]

[32] R. N. Sen, *In Clive Street* (Calcutta, 1981), 33.

[33] Tandon, *Beyond Punjab*, 28.

[34] Sen, *In Clive Street*, 15.

[35] T. Gladstone to A. Gladstone, 23 Nov. 1944, MSS OG, file 2634.

[36] Sen, *In Clive Street*, 22.

[37] E. Benthall memorandum to G. B. Morton (president of ASSOCHAM), 30 Apr. 1941, entitled, 'Presentation of the British Case in India to the British Press and Public', copy in MSS OG, file 2632; India Advisory Committee (an ad hoc group of British businessmen with interests in India), *Sub-Committee on Propaganda in the UK*, copy in MSS OG, file 2632.

[38] Sen, *In Clive Street*, 34–5.

Nevertheless, even after this time many Indians found the atmosphere in the firms oppressive. One young Indian recruit to an agency house in the 1940s reported that Indian executives were subjected to a great deal of pressure to conform to what seemed to be a regimented and alien lifestyle:

> There were many peculiar British habits, such as drawing the curtains and keeping the windows shut all the time . . . but most Indians who had adopted a western style of living more or less lived like that also . . . still keeping up the roast beef and Yorkshire pudding, steak and kidney pie and that sort of thing. The only exception was the Sunday curry lunch, which was always preceded by gallons of beer.[39]

The pressures of this lifestyle were the cause of unhappiness among many young Indian recruits. Tandon recalled an Indian friend who worked for an agency house,

> there was a kind of rootlessness about him . . . he found it a strain to play the role of a *sahib*. The British in his firm were themselves trying to conform to a pattern set by their predecessors in order to gain acceptance among British officials . . . to lift themselves out of the category labelled boxwallah. These commercial British perhaps outdid the official British in their conformity, just as, Roshan told me, some of his Indian colleagues tried to outdo the British.[40]

British and Indian Business

The managing agents' suspicion of Indians, evident in their policy towards recruitment of Indian employees, was also evident in their relationships with Indian business. This behaviour was probably even more damaging to their business interests than their recruitment policy, as it prevented them from establishing alliances with an increasingly successful and influential group of businessmen, despite several overtures from Indian entrepreneurs. The British managing agencies remained a remarkably exclusive business group throughout the period and established a system of interlocking directorships in which partners sat on the boards of companies managed by other managing agencies. This feature of the managing agencies was frequently denounced by nationalist critics.[41]

The numbers of Indian directors on companies managed by the agencies did increase after the First World War. This was particularly the case in the jute industry, where Marwari speculators acquired substantial

[39] R. Chatterjee, interview, IOLR, MSS Eur. T. 15. [40] Tandon, *Beyond Punjab*.
[41] For a full description of this system of interlocking directorships and criticisms of it see M. M. Mehta, *The Structure of Indian Industries* (2nd edn., Bombay, 1961).

shareholdings, often sold by European managers, and where Marwari *banians* were given shareholdings as collateral for loans to finance the extension of mills in the early 1920s. These Marwaris were later able to use their shareholdings to insist on a seat on company boards,[42] and in jute and coal companies between 20 per cent and 35 per cent of directorships were held by Indians; even so, they were a minority and the British attempted to restrict their representation.[43]

Some Indians were invited to be directors from the 1920s, but they tended to be figureheads rather than businessmen who had any real interest in the industry and it was more important that they had élite status within Indian society than that they had any business acumen. So, for instance, in Calcutta, members of Bengali social élites were recruited, such as Lord Sinha of Raipur.[44] The type of Indian who was preferred by the British was described by one of the partners of Bird as 'a man of education and culture, but with no knowledge of accounts'.[45] There was a very small group of Indian businessmen who did have close ties with the British business community, such as the managing agent Sir Rajendranath Mukherjee of Martin Burns Agency. Mukherjee was a very strong Anglophile who told the 1913 Public Services Commission that Indian representation in the ICS should not be allowed to exceed 25 per cent until Indians had learned how to socialize with their British counterparts:

> In my opinion the social side of the question must not be overlooked, unless a 'native of India' can mix with his European colleagues socially on an equal footing . . . he should not be appointed.[46]

Another such Indian was N. R. Sarkar, a Bengali colliery owner and politician, and all of these men were appointed to company boards.[47] However, such individuals were rare.

[42] O. Goswami, 'Sahibs, Babus and Banias', in Ray (ed.) *Entrepreneurship and Industry in India*, 237–8; R. N. Gilchrist, memorandum on the jute mill industry, WBSA Commerce Department, Commerce Branch, file 2–J-1, Sept. 1932, Capital Proceedings 87–134 B.

[43] *IIYB*, *1926* (Calcutta, 1927); see also Mehta, *The Structure of Indian Industries*, 38–9. See Table 6.

[44] See O. Goswami, *Industry, Trade and Peasant Society* (New Delhi, 1991), 110 n. 21.

[45] Paul Benthall was referring to Rai Bahadur Promatha Nath Mullick and suggested he be put on the board of two of Bird's coal companies. See P. Benthall to E. Benthall, 2 June 1937, MSS Benthall, Box 12.

[46] R. N. Mukherjee, *Report of the Indian Public Services Commission of 1913*, Appendix, vol. iii. 136, 134.

[47] On British relations with Mukherjee, see H. Bateson to H. N. Gladstone, 29 May 1919, MSS OG, file 2607; E. Benthall, 23 Aug. 1930, MSS Benthall, Box 7.

The absence of Indian businessmen from company boards is a good indication of the separation of Indian from British business communities. The managing agents tended to see the appointment of directors to their managed firms as essentially a means for creating new business alliances. So, for instance, Gillanders, along with a number of other leading managing agencies, virtually had a reserve seat on the board of the Imperial Bank and in exchange for this gave the bank business.[48] Thus in 1927 when the Calcutta branch proposed financing new coal interests through a debenture or bond issue, London was opposed, favouring a loan from the Imperial Bank: 'The Imperial Bank, and its predecessor, have been good friends of ours, and we should like to continue to give them first chance of any business we have'.[49]

Such close relationships are, however, not evident between the managing agencies and Indian entrepreneurs. Indeed, it appears that British–Indian business relationships were particularly cool owing to the culture of some Indian business groups which the managing agents, with their concerns about character, found especially alien. As has been seen, the most dynamic business communities of this period, such as the Marwaris and Gujaratis, were socially conservative groups, which unlike the Parsis and Bengali élites had not adopted European customs and behaviour;[50] partly for this reason the managing agents seem to have been particularly averse to establishing relations with these businessmen. So, for instance, when in 1927 G. D. Birla, the most successful Marwari industrialist of the inter-war period, asked for an introduction to Henry Gladstone when visiting London, Gladstone's immediate response was to establish his social status, enquiring anxiously of his Calcutta colleagues, 'can he be recommended socially?' Bateson replied that although he had not met him personally, he believed him to be 'more presentable' than other Marwaris 'whose company is at times more than a little trying'.[51]

The unwillingness of British businessmen to establish contacts with Indians, some of whom were eager to forge good relations with them,

[48] H. N. Gladstone to H. Bateson, 17 Feb. 1927, MSS OG, file 2613. The other firms were Jardine Skinner and Co. and George Henderson and Co. See P. S. Lokanathan, *The Industrial Organisation of India* (London, 1935), 163 n. 1.

[49] H. N. Gladstone to H. Bateson, 14 May 1919, MSS OG, file 2607.

[50] On the Marwaris, see O. Goswami, 'Then Came the Marwaris', *IESHR* 22: 3 (1985), 108; Markovits, *Indian Business and Nationalist Politics*, 22–3. For the Gujaratis, with whom the managing agencies had less contact, see D. Tripathi and M. Mehta, *Business Houses in Western India: A Study in Entrepreneurial Response, 1850–1956* (New Delhi, 1990), 108–9.

[51] H. Gladstone to H. Bateson, 2 June 1927, MSS OG, file 2613.

clearly alienated potential Indian partners, damaging British business and, as will be seen in Chapter 7, leading to political tensions. The failure to establish an understanding with businessmen such as Birla was to be particularly costly. In August 1925 Birla had invited Basil Eddis of Gillanders to accept a directorship on the board of one of his cotton mills, but the invitation was coolly declined.[52] While it would be naïve to conclude that incidents such as this forced Birla into the nationalist camp, there is some evidence that they did influence the political behaviour of Indian businessmen. Birla himself remarked that:

> When I was sixteen I started an independent business of my own as broker, and thus began my association with Englishmen who were my patrons and clients. During my association with them I began to see their superiority in business capacity and their many other virtues. But their racial arrogance could not be concealed. I was not allowed to use the lift up to their offices, nor their benches while waiting to see them. I smarted under these insults, and this created within me a political interest which from 1912 until this day I have fully maintained.[53]

One of Birla's Marwari business associates also argued that the British were particularly responsible for the gulf between the British and the Marwaris:

> I was quite sure that in trying to keep everything to themselves, the Europeans had done us a service and made us more active, and generally speaking, better able to look after ourselves.[54]

Certainly, closer relations would clearly have been beneficial to expatriate business. When, for example, in 1943 Birla's company took over the cotton mills of the European agency house of Sassoons, Gillanders lost the insurance contracts for these mills.[55]

The managing agency partners may have found the behaviour of the Marwaris especially alien, but relationships were little closer with the Parsis. In 1943 Gillanders declined an invitation from Tata, the Parsi industrial group, to collaborate with them to produce steel rope in India. Thomas Gladstone explained that he would prefer to collaborate with a British company because he did not 'like Tata's'.[56]

The evidence therefore suggests that the managing agency partners'

[52] H. Bateson to H. Gladstone, 25 Aug. 1925, MSS OG, file 2612.

[53] G. D. Birla, *In the Shadow of the Mahatma* (Calcutta, 1953), p. xv.

[54] D. P. Khaitan to Deviprosadji, 9 Sept. 1927, Thakurdas Papers, file 42, part 3. Cited in Ray, *Industrialization in India*, 308.

[55] T. Gladstone to A. Gladstone, Autumn 1943, MSS OG, file 2633.

[56] T. Gladstone to A. Gladstone. 5 Feb. 1943, MSS OG, file 2632.

attitudes to race and social status were at least in part responsible for their failure to exploit opportunities in India. It is also clear that their behaviour contributed to their unpopularity among nationalists and a weakening of their political position. As Albert Gladstone wrote to his nephew in Calcutta in May 1942:

> I am afraid that in a good many directions where business is concerned we are to blame for keeping our eyes shut to what you call the 'rising tide of nationalism' and refusing to make any changes. For example the board of the Imperial Bank in Calcutta is as British as it was a generation ago. The exchange banks too are based on sterling and are controlled from London. One would have thought it would be [wise] for them to indianise themselves to some extent.[57]

British Business and Economic Nationalism

The rhetoric of economic nationalism played a particularly important role in the Indian nationalist movement. This has generally been seen as in large part the consequence of the strong association between Indian business and the nationalist movement, a connection that, it is plausible to argue, the poor relations between Indian and British business helped to create.[58] Certainly, the rhetoric of economic nationalism increasingly focused on the behaviour of the managing agencies. Before the First World War, nationalist thinkers and politicians emphasized the supposedly damaging effect of British importers on the Indian textile industry;[59] they had also criticized the state for its land revenue policy and the 'drain' of resources from India which it promoted.[60] Subsequently the state came under attack for its rupee exchange rate policy, which, it was alleged, was damaging Indian industry.[61] However, the British business community in India soon displaced importers and the state as the main villain in the eyes of some nationalist politicians, who made a series of attempts to restrict the activity of British capital in India by

[57] A. Gladstone to T. Gladstone, 23 May 1942, MSS OG, file 2632.

[58] For the developing relationship between Indian business groups and the nationalist movement see, Markovits, *Indian Business and Nationalist Politics*, chs. 2, 3, 4; S. Sarkar, *The Swadeshi Movement in Bengal, 1903–1908* (Delhi, 1973), 172–4, 207, 279–281; Ray, *Industrialization in India*, 305–38.

[59] For the Swadeshi movement see Sarkar, *The Swadeshi Movement in Bengal.*

[60] B. Chandra, 'Indian Nationalists and the Drain, 1880–1905', *Indian Economic and Social History Review*, 2: 2 (Apr. 1965), 103–44. For an intellectual history of Indian economic nationalism see B. Chandra, *The Rise and Growth of Economic Nationalism in India: Economic Policies of the Indian National Leadership, 1880–1905* (New Delhi, 1966).

[61] B. R. Tomlinson, *The Political Economy of the Raj* (London, 1979), 67 f., 77–8.

legislative action.[62] These attacks took two broad forms: firstly, there were attempts to exclude foreign capital from certain sectors of the Indian economy, most notably, shipping, banking, and insurance; secondly, nationalists demanded that foreign enterprise be obliged to accept a minimum percentage of Indian capital and undertake to train and employ Indian executive and technical staff. The minority reports of the 1921 Fiscal Commission and the 1925 External Capital Committee, written by their Indian members, called for all new companies in India to be formed with rupee, rather than sterling, capital. They also demanded that foreign companies give preference to Indian capital subscribers and make provision for the training of Indian apprentices.[63]

In 1927 the campaign for economic nationalism began to accelerate with the introduction of several bills to restrict expatriate enterprise in particular sectors of the economy, the first of which was the 'Haji bill', designed to reserve coastal shipping for Indian, rupee companies.[64] This bill, inspired by the owner of the Scindia shipping company, Walchand Hirachand, was aimed explicitly at the shipping operations of the Inchcape group.[65] Other bills seeking to limit British influence in the oil prospecting and insurance sectors also created anxiety among British businessmen.[66] These campaigns against British capital in India coincided with a continuing attack on importers, and in the early 1920s and early 1930s the nationalists organized mass boycotts of goods produced by British manufacturers.[67] These campaigns mainly affected cotton goods, and hence damaged their importers and British mill owners in Bombay.[68]

Probably the most serious economic nationalist campaigns against British commercial interests, however, were organized by Indian business in the 1940s, when the issue of the repayment of India's sterling balances was being debated. When India's long-standing debt to Britain was repaid in 1943 as a result of its amortization against the

[62] For a discussion of the use of legislation to limit the scope of expatriate activity see G. Tyson, *Danger in India* (Calcutta, 1932).

[63] *Report of the Indian Fiscal Commission* (London, 1922); *Report of the Indian External Capital Enquiry Committee* (London, 1925), paragraphs 27–8.

[64] For a full account of this issue see N. G. Jogi, *Saga of Scindia* (Bombay, 1964).

[65] Markovits, *Indian Business and Nationalist Politics*, 187.

[66] T. Chapman-Mortimer to G. Mackerrow, 20 Sept. 1937, MSS Benthall, Box 12.

[67] On the Bombay mill owners and the boycott, see Gordon, *Businessmen and Politics*, 213 ff.; Markovits, *Indian Business and Nationalist Politics*, 72–4.

[68] B. Chatterji, *Trade, Tariffs and Empire* (New Delhi, 1992), 212–15.

cost of India's contribution to the war effort,[69] India began to accumulate sterling claims against the British government known as the sterling balances, amounting by 1945 to about £1.3 billion. Many in the Indian business community argued from late 1944 that part of the sterling balances should be used to purchase compulsorily the British managing agency houses and other British commercial assets.[70] In March 1946, this suggestion became the subject of a debate in the Central Legislative Assembly, after which it was widely rumoured that British company assets in India would be forcibly transferred into Indian hands using the sterling balances. The tone of the assembly debate was manifestly hostile and it was suggested by many speakers that British firms had no future in India.[71]

However, while these campaigns were worrying to expatriate business, their effect should not be exaggerated and the position of British business was certainly not hopeless. There was no unity, even among Indian nationalist businessmen, on the desirability of excluding expatriate business.[72] At the Round Table Conferences, for example, Benthall had been given personal guarantees by both Birla and Gandhi that Congress had no intention of discriminating against British economic interests in the event of their forming a government.[73] Birla, together with Purshotamdas Thakurdas, a prominent cotton trader in Bombay and confidant of Gandhi, also objected to the aggressive tactics of Walchand Hirachand over the Indian shipping issue, and in the 1937 provincial elections Congress opposed Hirachand's campaign.[74] Thakurdas in particular was extremely critical of the strategy of boycotting British goods:

> I myself feel that the salvation of India lies in coming to some understanding with British commerce. But we cannot do this . . . as long as boycott of British firms continues.[75]

[69] B. R. Tomlinson, 'Indo-British Relations in the Post-Colonial Era: The Sterling Balances Negotiations, 1947–49', in *JICH*, Special Issue, *Money, Finance and Empire, 1760–1960*, 13: 3 (1985), 142–62.

[70] Memorandum in Government of India Economic Department, file, L/E/8/432–453.

[71] T. Gladstone to A. Gladstone, 22 Feb. 1946, MSS OG, file 2634.

[72] For divisions within Indian business, see D. Tripathi, 'Congress and the Industrialists, 1885–1947', in D. Tripathi (ed.), *Business and Politics in India: A Historical Perspective* (New Delhi, 1991), 96–7.

[73] E. Benthall to T. Chapman-Mortimer, 17 Dec. 1931, MSS Benthall, Box 5.

[74] G. D. Birla to Sir R. Clarke, 30 June 1932, Thakurdas papers, file 107; Markovits, *Indian Businessmen and Nationalist Politics*, 187.

[75] P. Thakurdas to G. D. Birla, 4 July 1932, Thakurdas papers, file 107.

There were similar doubts among Indian businessmen about the proposal to expropriate the assets of European managing agency houses in part repayment of the sterling balances, and this proposal seems to have been entertained far more seriously by the government in Delhi and London than among Indian businessmen.[76] When the issue of the sterling balances was seriously discussed by an advisory committee to the Reserve Bank of India in late 1946, the Bengal Chamber of Commerce managed to enlist the help of Rai Badridas Goenka, a director of the bank, who put forward its case.[77] Proposals to expropriate foreign capital finally became redundant when the British government released a schedule for the transfer of the balances to India in 1947.[78]

Economic nationalist legislation, campaigns, and statements by Indian businessmen did worry expatriate businessmen, and as will be seen in Chapter 7 they insisted that the government introduce safeguards to protect them. However, there is little evidence that these campaigns had a significant effect on British business activity, or that they encouraged significant numbers of businessmen to disinvest or question their long-term position in India. Throughout the 1940s most British managing agency firms remained optimistic and committed to a future in India. Both Gillanders and Bird prepared extensive, if sometimes misconceived and over-optimistic reports on the potential of the Indian market after the war. In his 1944 report, 'Future Prospects', Thomas Gladstone of Gillanders argued that the firm had a great future ahead of it, providing very similar services to India as it had before the war because the living standards of the peasantry would rise as rural indebtedness was wiped out by wartime inflation.[79]

The optimistic view that British firms took of their future in independent India was comprehensively set out in a speech made by Edward Benthall in September 1947 to the Imperial Defence Council. Benthall believed that there was a good future for British trade in India: 'The demand for goods in India is likely to continue for some time for much wealth has accumulated' and the sterling balances would make it

[76] For this see 'Note of a meeting held to discuss the Indian Sterling Balances Negotiations', 12 Dec. 1946, Treasury, file 236/1117; IMF Census of Foreign Investment in India, *The Statesman,*, 31 Jan. 1947; and Tomlinson, 'Indo-British Relations', 155.

[77] B. Elkins to A. Gladstone, 17 Jan. 1947, MSS OG, file 2635.

[78] Tomlinson, 'Indo-British Relations'; M. Lipton and J. Firn, *The Erosion of a Relationship: India and Britain since 1960* (Oxford, 1975), 35.

[79] Note on 'Future Economic Prospects in Post-War India', by T. Gladstone, 27 Oct. 1944, MSS OG, file 2634.

easier for Indians to purchase these goods from Britain.[80] Moreover this would be the only means for reducing Britain's debt to India. British business had excellent opportunities now that Germany, Japan, and Italy had been temporarily removed from the international economy, as before the war their annual exports to India had totalled over £22 million. Most importantly, he stressed the close relationship between British trade *with* India and British business *in* India. He argued that British trade must be maintained in India, facilitated by,

> our long connections, established channels and overall respect for Britain and her goods in India . . . the alternative is a disastrous fall in the United Kingdom's standard of living. Managing agents provide a vital link with manufacturers in the United Kingdom. They know the country, can assess the risks of trade and credit-worthiness of the buyer and seller. Through their widespread branches they can offer well-informed distribution facilities to exporters not big enough to support their own branch agents . . . most importantly they have a natural tendency to use goods of British origin—if not for the connection with India the wheels of British India would go slower.[81]

Basil Elkins of Gillanders, writing in 1945 on the coming of independence, agreed with these sentiments:

> with much of the bitterness removed by India obtaining autonomy . . . there may be very good days ahead for British interests trading in India. We shall no longer feel that we are the favoured sons of the owner, but partners who are still welcome in a country that has as yet to breed sufficient men of integrity and capacity to do justice to the potentialities of the land.[82]

Elkins's statement, however, was to prove wildly over-optimistic. While before 1942 there is little evidence of a unified nationalist bloc intent on expelling British business, by independence the reluctance of the British to indianize their staff and create alliances with Indian business had caused deep resentment, as will be seen in Chapter 8. By this time the managing agency houses had accepted that they would have to make some concessions, but they were clearly having great difficulty in doing so, in large part because they remained committed to powerful notions of race, character, and social status which overrode any fears of the consequences which their exclusivity might have for relations with a government of an independent India. These attitudes

[80] Speech by E. Benthall to the Imperial Defence Council, Sept. 1947, MSS Benthall, Box 25.
[81] Ibid.
[82] B. Elkins to A. Gladstone, 4 May 1945, MSS OG, file 2634.

also contributed to the difficulties which they had in forging advantageous alliances with the new Indian entrepreneurial groups, and further undermining their position within the Indian economy. As will now be shown in the following chapters, the managing agents' conservatism on the racial question, combined with their more general emphasis on exclusivity and autonomy, also contributed to their alienation from the British Government of India.

6

Business, the State, and Economic Development, 1919–1947

> By the middle of the last century an entirely new set of ideas had grown up and the administrators of India deemed it their duty to discourage businessmen.
>
> Lovat Fraser, 1911[1]

> I know what private enterprise means! It means robbing the Government.
>
> Lord Lawrence, 1868[2]

In the decades after the First World War the managing agents found themselves in the midst of rapid and dramatic political as well as economic change. Inter-war India witnessed the gradual transfer of a certain amount of power over economic policy to Indian politicians: the Montagu-Chelmsford reforms of 1919 created elected provincial assemblies and granted limited authority to Indian ministers, while the Government of India Act of 1935 expanded the electorate and granted full autonomy to Indian provincial governments.[3] Moreover the GoI was given greater freedom from London over the formulation of economic and financial policy and, to a certain extent, used this freedom to promote Indian economic development. This new autonomy was strikingly evident after the Imperial Trade Conference held in Ottawa in 1932, when India was

[1] Lovat Fraser, *India Under Curzon* (London, 1911), 306.

[2] Lord Lawrence, quoted by Lovat Fraser, *India Under Curzon*.

[3] 'Transferred ministries' included the ministries of commerce, industry, and labour. There is a large literature on the political and constitutional developments in India between 1919–35. On the Montagu-Chelmsford Reforms see P. G. Robb, *The Government of India and Reform: Policies towards Politics and the Constitution* (Oxford, 1976); for a comprehensive survey of the motivations behind constitutional reform in the period see B. R. Tomlinson, 'India and the British Empire, 1880–1935', *IESHR* 12: 4 (1975), 337–80. For a detailed account of the negotiations see R. J. Moore, *The Crisis of Indian Unity, 1917–1940* (Oxford, 1974); P. S. Gupta, *Imperialism and the British Labour Movement* (London, 1975), gives an account of the evolution of the reforms from the perspective of the British left and C. Bridge provides the view from the right in *Holding India to Empire: The British Conservative Party and the 1935 Constitution* (London, 1986).

given the same status for trade purposes as the white dominions.[4] While it would be an exaggeration to suggest that this amounted to a radical reversal of imperial priorities, changes in monetary and fiscal policy, and in particular the introduction of discriminating tariffs in 1922 and the acquisition of monetary autonomy from London in 1935, affected the economic environment in which the managing agencies operated.[5] This chapter will examine the implications of these changes for the managing agents' business and the effectiveness of the partners' response to them.

There has been some debate over the nature of the relationship between expatriate business and the state and the effects of inter-war political developments on British enterprise. One influential view suggests that throughout this period there was a very close relationship between British business and British colonial and imperial officialdom. Expatriate business successfully exploited this intimacy to gain economic privileges for itself and was also able to prevail on the state to obstruct Indian industrial development in general and the progress of Indian businessmen in particular.[6] However, as the state was forced to devolve greater powers to India, it was less able to protect the interests of expatriate enterprise and because the viability of the managing agents was wholly dependent on the support of the British state, once independence came they were bound to fail.[7]

A very different view of the relationship between the British state and business is implied by more recent work on inter-war imperial policy. This interpretation argues that the British state consistently put its own

[4] For a discussion of the implications of the Ottawa Conference, see P. J. Cain and A. G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914–1990* (London and New York, 1993), 84.

[5] For the development of the state's economic policies in this period, see B. R. Tomlinson, *The Political Economy of the Raj* (London, 1979), 57–92; C. Dewey, 'The End of the Imperialism of Free Trade', in C. Dewey and A. G. Hopkins (eds.), *The Imperial Impact: Studies in the Economic History of Africa and India* (London, 1978); Cain and Hopkins, *British Imperialism: Crisis and Deconstruction, 1914–1990*, 180–94; B. Chatterji, *Trade, Tariffs and Empire* (New Delhi, 1992), chs. 4, 6, 7.

[6] The most trenchant exponent of this view is Bagchi, who argues that European business in India was supported by 'a whole set of administrative, political and financial arrangements within India', *Private Investment in India* (Cambridge, 1972), 165–70. Ray, who does not endorse Bagchi's position entirely, also argues that the *Raj* systematically favoured European business; see R. Ray, *Industrialization in India* (Delhi, 1979), 359; Kidron, while not denying that British business and the colonial government occasionally clashed, insists that generally their interests coincided; see M. Kidron, *Foreign Investment in India* (London, 1965), 12. A more sceptical view of the role of the colonial state in the promotion of British business interests is taken by G. Jones, 'The State and Economic Development in India 1890–1947: The Case of Oil', *MAS* 13: 3 (1979), 353–75.

[7] Ray, *Industrialization in India*, 359.

financial interests above all others. Until the 1880s, the interests of commercial and industrial business and the state generally coincided, but subsequently they diverged as the state and more purely financial interests drew closer together.[8] The concession of fiscal autonomy to the Government of India in 1919 and the subsequent establishment of a wide-ranging protectionist regime was motivated by the crisis in Indian state revenues, and by the consequent fear that Indian financial instability would eventually become a charge on the British taxpayer and damage the City of London. Hence British business interests, both domestic and by implication expatriate, which relied on the maintenance of free trade were sacrificed to the state's overwhelming commitment to the servicing of India's sterling debt and the protection of the pre-eminence of the City.[9]

It will be argued here that both views are unconvincing, largely because they have misinterpreted the policies of the Government of India towards business in the inter-war period. While there are some examples of British businesses receiving privileged treatment from the Government of India, such as its grant of the mail monopoly to the Mackinnon shipping company in the 1860s (a concern which later became part of the Inchcape group), there is little evidence that the state gave many such privileges to British businesses or that they were of any great significance, particularly in the inter-war period.[10] However, it would be inaccurate to argue that the state was completely uninterested in general business fortunes and was exclusively concerned with its own financial stability and with the interests of the City of London. Rather, many officials within the Government of India became increasingly interested in adopting policies to develop the Indian economy.[11] Although the results of these developmental initiatives were limited, they did provide opportunities for growth and innovation to all businesses in India, both expatriate and Indian.

[8] P. J. Cain and A. G. Hopkins, *British Imperialism: Innovation and Expansion, 1688–1914* (London and New York, 1993), 333–50; *British Imperialism: Crisis and Deconstruction, 1914–1990*, 172–4.

[9] Ibid. 181–2. They argue: 'As Manchester was sacrificed to help balance India's budget, so India was drawn into a strategy for regaining Britain's pre-eminence in international finance.'

[10] Tomlinson also makes this point; see B. R. Tomlinson, *The Economy of Modern India, 1860–1970* (Cambridge, 1993), 100, 126–7.

[11] For these developmental policies in the 1920s, see C. Dewey, 'The Government of India's "New Industrial Policy", 1900–1925: Formulation and Failure', in C. Dewey and K. Chaudhuri (eds.), *Economy and Society: Studies in Indian Economic and Social History* (New Delhi, 1978), 215–57.

Similarly, the granting of political representation to British and Indian business in the reformed central and provincial assemblies created by the 1919 Government of India Act, and the GoI's consultation of business interests in all major commissions of inquiry relating to social and economic questions, gave these businessmen the opportunity to use formal politics to pursue its interests.

It is clear then that British business was not totally reliant on the state for its economic survival in India, nor were its interests entirely ignored by officials: rather it was presented with the opportunity to use the new political framework to lobby for its interests and influence a state that was potentially sympathetic to the role of business in the development of India. However, the expatriate business community was reluctant and ill prepared to make use of these opportunities. This chapter will suggest that there are a number of reasons for this: expatriate businessmen disliked the requirement to act as a formally represented interest group, and they were also wary of offering collective opinions on macroeconomic policy issues, many of which caused divisions within the business community. More generally their commitment to autonomy and individualism in the sphere of business was paralleled by their suspicion of the state and of collective business action in the political sphere: they accepted a certain limited role for the state, such as in the development of communications infrastructure, and even called for the state to assist them in maintaining their cartels, but they were largely hostile to any significant state intervention in the economy; in general, they were hostile to the GoI's developmental policies. As a result of this, and their refusal to co-operate with the GoI's political strategy, expatriate entrepreneurs' relations with the state in India deteriorated during the 1920s and 1930s and, ultimately, they were unable to influence the formulation of policies which significantly affected their businesses.[12]

British Business and the Government of India's Industrial Policy

From the late nineteenth century and early twentieth century there is evidence that government officials in India were beginning to accept the idea that the state should play more of a role in developing the Indian

[12] The refusal of expatriate business to co-operate with the GoI's political strategy will be discussed in the next chapter.

economy.[13] This 'developmentalism' was particularly associated with Lord Curzon, who favoured the development of Indian industry in order to promote munitions production and strengthen the empire's strategic position in the region.[14] Under his auspices a Department of Commerce and Industry was established to provide commercial information to businesses. Similarly, attempts were made to establish India's first technical universities in order to stimulate India's industrialization. Most significantly, from 1897 the state provided incentives to British entrepreneurs to expand the Indian iron and steel industry, by granting guaranteed purchasing contracts and underwriting investors' returns.[15] The notion that Indian industry was insufficiently advanced and that state assistance was necessary to remedy this was given systematic expression in the ideas of the Indian Industrial Commission of 1916–19, appointed by the GoI. The Commission reported that a range of state industrial policies should be co-ordinated from the centre, including the provision of technical advice and education, investment in infrastructure, the establishment of pioneer factories in new industries sponsored by the government, the encouragement of new industrial banks, and the provision of assistance to private industry in certain circumstances.[16]

This 'new industrial policy' ultimately had little real effect for a number of reasons: pressure for retrenchment in the early 1920s ensured that spending on these projects was curbed; more importantly, industry became one of the areas transferred to Indian ministers in the semi-autonomous provincial governments created in 1919, and hence central co-ordination proved impossible; also, as will be seen, British expatriate businesses lobbied against any significant increase in state intervention.[17] However, the GoI continued to make plans for supporting industry in India because it considered that its development would not necessarily harm the interests of British manufacturers and that Britain would benefit in the long term from an economically strong trading partner.[18] Thus, the

[13] For example, Henry Fowler, Secretary of State at the India Office in 1894–5 admitted that there was 'an element of protection in the duties' which he introduced on Indian cotton in 1895. See H. C. G. Matthew, *The Liberal Imperialists: The Ideas and Politics of a Post-Gladstonian Elite* (Oxford, 1973), 164.

[14] Ray, *Industrialization in India*, 239–40.

[15] Tomlinson, *The Economy of Modern India*, 128.

[16] *Report of the Indian Industrial Commission, 1916–1918*, Cmd 51 of 1919, i. 229–42. For these ideas, see Dewey, 'The Government of India's "New Industrial Policy", 1900–1925', 215–57.

[17] For the failure of the industrial policy, see ibid. 237–46.

[18] Bagchi, *Private Investment in India*, 45–7.

progressive transfer of responsibility for government purchases from London to Delhi gave the Indian Stores Department discretionary powers to favour goods produced in India, and the preamble to the stores purchase committee rules of 1924 stated that 'the policy of the Government of India is to make their purchases of stores for the public service in such a way as to encourage the industries of the country . . .'[19]

By the early 1930s planning had become fashionable among a group of prominent officials in the GoI, and the Finance Member, George Schuster, even proposed the formulation of a 'five-year economic plan'.[20] The GoI also considered the establishment of a Council of Experts attached to the Governor-General's Council, which was to have the power to demand information from the private sector and was to provide economic advice to the GoI in order to promote more rapid industrialization. It also proposed the creation of an Economic Advisory Council similar to the Economic Advisory Council in Britain, which would include representatives of industry, banking, commerce, and agriculture.[21] In addition, the GoI, in part motivated by a concern for the economic health of the industry and in part by anxiety over increasing labour militancy in the jute industry, proposed that statutory support be given to jute and cotton cartels which were attempting to restrict output and maintain prices.[22] This, however, was to be conditional on the GoI's satisfaction that the industry rationalized itself: a joint memorandum in 1935 from the GoI and the Government of Bengal criticized the jute industry for insisting on keeping large numbers of small mills open, for poor organization, and for excessive profits, and insisted on reform of the industry in return for price support.[23]

[19] A. G. Clow, *The State and Industry: A Narrative of Indian Government Policy in Relation to Industry Under the Reformed Constitution* (Calcutta, 1928), ch. 10.

[20] Note by Schuster in Government of India Commerce Department, Proceedings A No. 1, Mar. 1934, file 7 – C(1) of 1933.

[21] See Sir George Schuster, 'Indian Economic Life: Past Trends and Future Prospects', *Journal of the Royal Society of Arts*, 83 (1935), 656–7; Letter from the Secretary of the European Group of the Central Legislative Assembly to the Committee of the Associated Chambers of Commerce, 21 Mar. 1934, in *The Annual Report of the Bengal Chamber of Commerce, 1934* (Calcutta, 1935); Tomlinson, *The Political Economy of the Raj*, 88–90.

[22] D. Chakrabarty, *Rethinking Working Class History: Bengal 1890–1940* (Princeton, 1989), 72–5.

[23] Memorandum to the Secretary of the Indian Jute Mills Association from the Deputy Secretary to the Government of Bengal Finance, Commerce and Marine Departments, 12 Aug. 1935; IJMA, *Annual Report, 1934* (Calcutta, 1935), 151.

By the mid-1930s a more orthodox 'liberal' attitude to the state's role in the economy prevailed in Delhi, symbolized by the appointment of Sir John Grigg as Finance Member in 1935. However, in the later 1930s interest in Indian economic development became a feature of policy-making in London as well as in Delhi, both in the India Office and the Board of Trade. These bodies were becoming interested in placing the economic relationship between Britain and India on new foundations in order to assist the long-term development of British economic interests. They acknowledged that the old foundations of Indo-British trade, in which India's role as a primary commodity exporter and importer of basic manufactures from Britain, could no longer be sustained. However, they did not conclude, as some historians have implied, that the divergence between the two economies was inevitable;[24] rather they saw India as a potential market for more advanced manufacturing exports, but believed that to realize this potential a strategy of government intervention was required, designed to develop further the Indian economy and raise purchasing power. As a memorandum prepared for the Board of Trade by the Trade Commissioner for India in the preparatory stages of the 1939 Anglo-Indian Trade Agreement explained:

> Where Indian industries exist, more abundant capital would enable them to buy more expensive British machinery . . . informal collaboration between the two governments and industrialists to this end is highly desirable.[25]

Neither the consistency nor the effect of the government's industrial policy should be exaggerated. Throughout the period the GoI suffered from financial constraints which prevented it from pursuing many of these schemes for industrial development vigorously. It is also true that divisions within the central bureaucracy, between the provincial and central governments, and between London and Delhi ensured that there was inconsistency in policy-making.[26] However, the state was not solely concerned with its own financial and political stability, and was offering all business groups in India the opportunity for partnership, an opportunity which expatriate businesses could have exploited.

[24] For this view, see Tomlinson, *The Political Economy of the Raj*, 46–8.

[25] Note on Indian Trade Agreement, Conservative Research Department (henceforth CRD) 1–1–9, 1937.

[26] For these divisions, see Dewey, '*The Government of India's "New Industrial Policy", 1900–1925*', 243.

Expatriate businesses, however, although divided on the desirability of some specific initiatives in cases where their particular interests differed, tended in general to respond to them with hostility, largely for ideological reasons: as was the case with their approach to business itself, they were committed to a more liberal conception of economic activity and viewed state intervention in the economy beyond certain well-defined limits with suspicion. One of the most outspoken opponents of the GoI's industrial policy during the First World War was Sir James Mackay, who attacked government involvement in economic development on principle and opposed the plans of the Indian Industrial Commission. As chairman of the 1922 GoI Retrenchment Committee he succeeded in reducing the size and scope of the Indian Industries Department.[27]

Mackay established himself as the leading spokesman of the expatriate business community in the immediate post-war period, and while there was some business support for the Indian Industrial Commission's plans to establish a Commercial Information Department, Mackay's stance was adopted by several businessmen and chambers of commerce.[28] A typical view was that of W. A. Ironside of Bird who, in his evidence to the Industrial Commission, argued that 'pioneer factories', sponsored by the government, were unnecessary because:

> if [an industry started by the government] shows a fairly certain good return on capital I cannot understand why there should be any difficulty [for the industry in private hands] in enlisting the public support that is necessary.[29]

He also opposed any form of government grants-in-aid to industry declaring:

> I have no experience of government financial aid and I am opposed to it *per se*. It restricts the education of the people by inducing enterprise to be spoon-fed and hot-house forced . . . Were financial aid to be accorded, dual control would be evolved and the result would be chaos. Industry is in its infancy . . . it cannot be managed by impractical and scholastic methods.[30]

A similar hostility to the state's efforts to support Indian industry was expressed by the Bengal Chamber of Commerce in response to changes in government purchasing policy. The Chamber was anxious lest the policy would create a 'buying monopoly' which would operate to their

[27] See ibid. 246–7. [28] Ibid.
[29] *Report of the Indian Industrial Commission, 1918*, Evidence of W. Ironside (Calcutta, 1919), 884. [30] Ibid, 869.

disadvantage, but it also objected to plans for provincial governments to buy locally 'at higher than market prices [in order] to stimulate local market production' as a 'dangerous precedent'.[31]

Suspicion of state intervention on the part of expatriate business is particularly evident in its response to Schuster's proposal of mild economic planning of 1934. The Committee of the Associated Chambers of Commerce (ASSOCHAM) strongly objected to the corporatist implications of the Schuster plans. It argued that an Economic Advisory Council which was supposedly 'representative' of private and public economic interests in the country was doomed to fail, because these interests conflicted and the Council would become an 'arena for advancing sectional interests' rather than a way of 'arriving at sound policy'. Taking a constitutionalist view, it insisted that the legislature should maintain control.[32] Although it had no objection to the creation of a body of experts to process government statistics, the chamber opposed a 'revolutionary organisation' which had the power to demand information from businesses. More generally, it believed that

> overabundant interference by government in natural economic areas is to be deplored and . . . an excess of 'planned economy' throughout the world today is leading to restriction rather than an increase of world trade.[33]

Objections to the GoI's proposals were not only based on a principled observance of the proper division between the state and the economy; they were also the consequence of a commitment to financial orthodoxy and fears that state spending would increase, leading to inflation and undermining the currency. In 1919, there were complaints that the state was relaxing the rules of budgetary orthodoxy in order to invest in infrastructure, and in particular railways, and that the Treasury was becoming a 'spending department' rather than a 'savings' one, a development which they believed had caused the extreme instability in the exchange during the period.[34] Similarly, the European group in the Central Legislative Assembly refused to support the government's 1935 budget on these grounds.[35] Also, expatriate business suspicion of government was a consequence of the belief that the GoI would be able

31 *Annual Report of the Bengal Chamber of Commerce, 1921* (Calcutta, 1922), ii. 621–3.

32 Letter from the Committee of the Associated Chambers of Commerce to the Committee of the Bengal Chamber of Commerce, 12 July 1934, *Annual Report of the Bengal Chamber of Commerce, 1934*.

33 Ibid.

34 H. Gladstone to H. Bateson, 27 Apr. 1919, MSS OG, file 2906.

35 C. Mortimer to E. Benthall, 27 May 1935, MSS Benthall, Box 5.

to compete unfairly with the private sector. So, for example, the Bengal Chamber of Commerce complained that the governments of Bengal, Orissa, and the United Provinces were, through their agricultural engineering sections, undercutting private firms in the supply of tube wells and driving them out of business.[36]

The committee of ASSOCHAM went even further, questioning the GoI's basic premiss that Indian industry should be encouraged at all, arguing that greater industrial development in India would reduce, not increase, prosperity because it would lead to a consequent reduction in manufacturing imports, which would ultimately reduce demand for Indian agricultural exports, India's most important earner of foreign exchange; the committee declared that it was 'not disposed to favour so rapid a development of industries as will prejudice the country's foreign trade to the detriment of the market for Indian agricultural products'.[37]

The Associated Chambers' suspicion of the mild form of corporatism and state intervention proposed by Schuster and his allies was shared by many expatriate businessmen. Benthall, who became the most prominent businessman in the community after the departure of Inchcape in 1923, described Schuster and A. G. Clow, the Labour and later the Commerce Member of the GoI, and a proponent of government intervention in labour policy, as 'dangerous anti-capitalists'.[38] Edward Benthall extended his criticisms more generally to those British Conservative politicians, such as Harold Macmillan and Hugh Molson, who favoured increased state intervention, denouncing their 'socialistic leanings'.[39]

This principled objection to state intervention came under strain during the crisis in the jute industry and the industry's increasing reliance on its cartel, the IJMA. The IJMA had existed since 1884 as a voluntary organization to restrict output and maintain prices. However, the boom in the industry in the early 1920s and the cheapness of machinery in the later 1920s had undermined its efforts to prevent increases in capacity. By the early 1930s, secret breaches of IJMA agreements by both Europeans and Indians and the establishment of Indian mills outside the agreement compounded the difficulties caused by the depression and had a serious impact on profits. This crisis

[36] Letter from the Bengal Chamber to the Associated Chambers, 5 Feb. 1930, *Annual Report of the Bengal Chamber of Commerce, 1930* (Calcutta, 1931).

[37] Ibid.

[38] Benthall to Morton, 12 July 1936, MSS Benthall, Box 5.

[39] Benthall's memorandum on the jute crisis, 24 Sept. 1935, MSS Benthall, Box 10.

compelled British businessmen in the IJMA to appeal to the GoI to give statutory force to its restrictive agreements in 1932 and prevent new mills from being established outside the IJMA.[40]

However, they would only accept state support if it was unconditional and they maintained their objection to any state intervention in the organization of the industry. The IJMA refused to accept the GoI's view that support for the cartel was only possible if the industry was rationalized, with smaller mills closed down and concentration of capital in fewer mills. It denied that there was any long-term over-capacity in the industry, and certainly refused to accept the GoI's view that there was only demand for a third of the existing capacity at most. It also insisted that any mills which were making a profit should not be closed down, failing to take account of the GoI's argument that efficiency and economies of scale should be improved if the mills were to be viable in the long term. The IJMA's position was that if the state gave statutory protection from the unrestricted competition of new entrants to the industry without conditions attached, existing mills could be relied upon to lower costs, stimulate demand, and 'experiment' with 'reputedly more efficient machines'.[41] The view of the IJMA was that there were no structural problems with the jute industry, and any problems that did exist would be solved without government intervention.

The private correspondence of expatriate businessmen shows that issues of principle were of equal, if not greater importance than the reasoning of the IJMA. At a meeting in London in September 1935 at the height of the crisis the senior partners of the three largest managing agency houses with the largest jute interests, Yule, Bird, and Jardine Skinner, strongly objected to government intervention in the organization of firms and restrictions on the use of machinery. They were only prepared to accept government involvement if any quota schemes were voluntary, self-regulated, and the 'precise limits of government intervention known'.[42] Some of them preferred the prospect of a renewed outbreak of unrestricted competition to excessive government intervention. As Benthall explained:

[40] IJMA, *Committee Report and Correspondence* (Calcutta, 1936), ii. 345.

[41] The Secretary of the IJMA to the Secretary to the Government of Bengal Finance, Commerce and Marine Departments, letter no. 2157–D, 1 Nov. 1935, in *The Annual Report of the IJMA, 1935* (Calcutta, 1936), 154–68.

[42] Benthall to G. Morton, 20 Sept. 1935, MSS Benthall, Box 10.

I am not advocating unrestricted competition; I am merely saying that I am not in the least bit afraid of it and I would sooner have it at the present moment than a policy of calling on the government.[43]

Benthall was particularly worried that government involvement would establish a precedent, and the 'next step' would be minimum wages and restriction of profits:

once started the government will regulate whatever they want . . . We have been at infinite pains for a number of years to try to provide some constitutional protection against interference in our businesses by the government, and . . . it seems to me to be flying in the face of providence to adopt a policy of running to government for help because we are in difficulty.[44]

Not all businessmen shared Edward Benthall's confidence in free competition, and Lord Catto of Yule and Sir Alexander Murray of Jardine Skinner were less extreme; others, such as the partners of the firm Kettlewell Bullen and Co., who had built new mills when costs were at their highest, were willing to make more concessions in exchange for government support.[45] However, business opposition ensured that the rationalization scheme came to nothing and the GoI refused to support the IJMA.

The managing agents only succeeded in securing unconditional statutory support for the IJMA from the new indianized Bengal Provincial Government, elected in 1937 under the terms of the 1935 constitution. The increased autonomy of local legislatures allowed businessmen to exploit their personal contacts with Indian politicians: as will be seen in the next chapter, they were much better able to operate by using personal contacts with politicians than by formally interacting with the political organization as the GoI preferred. In Bengal, they had forged good links with the Muslim League politician H. S. Suhrawardy in their attempts to counter labour militancy.[46] When Suhrawardy was appointed Minister for Commerce and Labour in the new Bengal government, he was prepared to influence commercial policy on their behalf in return for their assistance in promoting his Muslim 'White Flag' unions in competition with Congress and Communist unions. In September 1938 the Jute Ordinance was passed,

[43] Benthall, Memorandum on the Jute Mill Crisis, 29 June 1935, MSS Benthall, Box 10.
[44] Ibid.
[45] Sir Alexander Murray, Memorandum on visit to India, 3 Jan. 1935, MSS A. & S. Henry, file 86/v/7/52; E. Benthall to G. Morton, 20 Sept. 1935, MSS Benthall, Box 10.
[46] Chakrabarty, *Rethinking Working Class History*, 200–3.

according to which the Bengal government took powers to restrict and control the manufacture of jute products in Bengal, without any attempt to rationalize the industry.[47]

Just as the local legislatures were less interested in interfering in industry towards the end of the 1930s, so in Delhi the impetus behind governmental industrial policy weakened. The appointment of Sir John Grigg, the financially orthodox Finance Member, at the end of 1935, who believed that Keynesian ideas were 'either silly or vicious', was largely welcomed by the expatriate business community.[48]

Business, the State, and Tariffs

The response of expatriate business to tariff issues, one of the most important questions of economic policy confronting business during the inter-war period, was very similar to its response to cartels, although on this issue there were even more divisions within the community. While in the abstract most of them adhered to a free trade position, in practice they were prepared to modify their views out of self-interest, particularly in the disturbed conditions of the 1930s. However, they refused to use the GoI's policy of fiscal discrimination in favour of Indian industry to their own advantage and felt uncomfortable about tariffs.

Following the revenue crisis in India at the end of the First World War, the imperial government granted the GoI fiscal autonomy and in 1922 the GoI established the Indian Fiscal Commission in order to develop a system of discriminating protection for sections of Indian industry. The Commission sought the opinions of British and Indian businessmen, and recommended the adoption of discriminating protection which would give a measure of protection to those industries which could prove that they were viable in a free market. To some extent, the GoI was motivated by the desire to appease Indian moderate nationalist opinion, which had criticized the British for hindering the development of Indian industry, although the policies adopted did not satisfy many of them.[49]

[47] McDonald to Mason, 7 June 1938, MSS A. & S. Henry, file 86/v/7/5; for the Jute Ordinance, see *IJMA Report of the Committee, 1938* (Calcutta, 1939), 68–72.

[48] See T. Chapman-Mortimer to E. Benthall, 3 Oct. 1935, MSS Benthall, Box 9.

[49] For the origins of the tariff policy, see Dewey 'The End of the Imperialism of Free Trade', for an alternative interpretation see Chatterji, *Trade, Tariffs and Empire*, chs. 4, 6. For a detailed examination of the effects of protection on Indian industry in the inter-war period, see Ray, *Industrialization in India*, 54–210; Bagchi, *Private Investment in India*, 219–420.

Between 1923 and 1939 eleven industries and two primary products were granted protection.[50] The government's increasing reliance on revenue from tariffs also gave a measure of stimulation to other import substitution industries such as cement. The principle of managed trade was extended by the Ottawa agreements in 1932 which marked the end of free trade and the adoption of a series of bilateral trade treaties between member states of the British empire, in which each participant would give some preference to imperial over non-imperial goods by each participant.[51] The GoI again allowed business to participate in these negotiations: Indian and British businessmen were part of official and unofficial delegations to Ottawa, and the GoI hoped that expatriate and Indian business would take advantage of this new trading regime to promote links between the British and Indian economies by private agreement.[52]

Expatriate business, however, did not take a strong interest in tariff policy or take advantage of the GoI's willingness to involve it in its formulation. At times some businessmen expressed principled objections. For example, in 1923 the British-dominated Indian Mining Association rejected the demands of the Indian-dominated Indian Mining Federation that the coal industry should be protected, arguing 'a good many of us cannot help feeling that it is wrong in principle'.[53] Even as late as 1941 Benthall was convinced that industries based on import substitution were not a wise investment for his firm, arguing:

> We shall have to tread warily in regard to the question of industrial expansion . . . I think we shall have to avoid like the plague anything which involves protection as it would seem that any peace must be based on international collaboration and freedom of trade.[54]

Expatriate business rarely shared the GoI's view that tariffs should be used as a stimulus to industrial development, and very few exploited the tariffs by diversifying into the new protected industries.[55]

[50] These industries were: iron and steel, cotton textiles, sugar, paper, matches, salt, heavy chemicals, plywood and tea chests, sericulture, magnesium chloride, gold thread, rice, and wheat.

[51] For the Ottawa agreement and India, see Chatterji, *Trade, Tariffs and Empire*, ch. 8.

[52] Ibid. 65–74.

[53] President's Address, *Annual Report of the Indian Mining Association*, i (Calcutta, 1924), p. v.

[54] E. Benthall to G. Morton, 23 July 1941, MSS Benthall, Box 15.

[55] There was British agency representation in some protected industries, such as the iron and steel and paper industries, but these interests long predated the introduction of protection.

Protection was grudgingly tolerated by British business for various reasons, but mainly because customs revenue was the only alternative to increases in income tax which would have affected Europeans disproportionately; this view was explained in the evidence of the Bengal Chamber of Commerce to the Fiscal Commission of 1922:

> Free trade is of necessity attractive to merchants, but the committee . . . has no objection to the imposition of customs duties for the purpose of obtaining revenue. And in the present circumstances and condition of this country they think that customs duties provide a more suitable method of raising revenue than is provided by direct taxation. But this view is subject to the limitation that the tariff is very low.[56]

However, the Chamber went on to state that if the revenue tariff was to be set at a high level, or was to become a 'protective' tariff, it would prefer income tax.[57] It took a much more orthodox view of the merits of using protection to foster economic development than officials in the GoI, arguing that 'a great export trade and a great import trade, will be imperative if the country is ever to be industrially developed'.[58]

The other main reason why British business, at times, accepted the need for protection was to counter 'unfair trade' or 'dumping'. The Bengal Chamber, for instance, concluded that tariffs might be needed to counter 'dumping, bounties, transport concessions etc.'[59] The view that protection should be used against unfair competition was particularly popular among businessmen in 1932–3, when the competitive devaluation of the yen led to a demand that the Indo-Japanese Trade Treaty be revoked and that the GoI introduce emergency protection for all industries threatened by Japanese imports not yet covered by established tariffs.[60]

Apart from ideological reservations among some businessmen, the main reason why expatriate business was unwilling to become involved in the formulation of tariff policy was its fear that the issue would be too divisive. Because the agency firms encompassed both industrial and commercial interests, and the European Chambers of Commerce included businesses in a variety of sectors, unanimity on the tariff issue

[56] Evidence from the Bengal Chamber of Commerce to the Indian Fiscal Commission, *Annual Report of the Bengal Chamber of Commerce, 1922* (Calcutta, 1923), 251–2.

[57] Ibid. 252. [58] Ibid. [59] Ibid. 253.

[60] See Proceedings of the Annual General Meeting of the Associated Chambers of Commerce, 9 Jan. 1933, reprinted in the *Annual Report of the Bengal Chamber of Commerce, 1922–1923* (Calcutta, 1923).

was impossible to achieve. The Bengal Chamber's reply to the Fiscal Commission made this clear, honestly stating that: 'It would be unreasonable to expect among interests so diversified unanimous conclusions can be arrived at in respect of such highly controversial matters as those in question'.[61] Similarly, in response to GoI inquiries on business opinion on tariffs, the Associated Chambers of Commerce noted in 1928 that they found it difficult to express an opinion as various chambers expressed divergent views. They therefore asked the GoI to revert to its old system of consulting local governments which would in turn consult individual chambers and firms.[62] The Bombay Chamber of Commerce found itself in a similar position when asked to comment on tariffs on cotton piece-goods. The chamber explained that:

> The 1933 duty of 75% on all non-British piece goods hurt the interests of some members of the Chamber who were importers of continental piece goods . . . The Bombay Chamber . . . therefore found it impossible to put forward a unanimous view.[63]

Labour Policy

Another element of the state's attempts to promote economic development in India in the inter-war period was the evolution of a new labour policy. The GoI introduced a great deal of legislation, both to improve labour welfare and to encourage the establishment of 'responsible' and non-political trade unions; this included the Workers' Compensation Act of 1923, the Trade Union Act of 1926, the Trades Disputes Act of 1928, the Maternity Benefits Bill of 1929, and the Payment of Wages Act of 1933. The intention behind these reforms was partly to prevent the politicization of labour unrest at times of nationalist agitation, but it was also informed by a mildly developmental approach to economic policy: education, compensation for injury, and other welfarist reforms would, it was argued, particularly by the Whitley Commission on Labour of 1929–31, enhance the 'efficiency' of the Indian worker.[64] It

[61] Evidence of the Bengal Chamber of Commerce to the Fiscal Commission, 250.

[62] Letter from the Committee of the ASSOCHAM to the Government of India Commercial Department 31 Oct. 1928, in *Annual Report of the Associated Chambers, 1928* (Calcutta, 1929).

[63] R. J. F. Sullivan, *One Hundred Years of Bombay: A History of the Bombay Chamber of Commerce, 1836–1936* (Bombay, 1936), 198.

[64] For the motives of the GoI labour policy, see Chakrabarty, *Rethinking Working Class History*, 72–3; R. Chandavarkar, *The Origins of Industrial Capitalism in India: Business Strategies and the Working Classes in Bombay, 1900–1940* (Cambridge, 1994), 354–5.

was considered in official circles that the militancy of labour and low levels of industrial efficiency were related to poor working conditions.[65]

The provincial governments and particularly the government in Bombay were also active in promoting a new labour policy. In response to the labour unrest of 1929, the Bombay government enforced new procedures for conciliation between capital and labour and for the regulation of labour discipline, appointing a government official to act as labour commissioner with the power to refer disputes to the government for compulsory arbitration by the government.[66] The Bengal government, possibly because of its close relations with European employers in the jute mill industry resisted these changes.[67] However, severe labour unrest in the jute industry in 1937 brought more pressure for the creation of a similar conciliation framework, but the British employers succeeded in pre-empting the legislation in 1937 with the appointment of their own labour welfare officers. By this time, however, power was in the hands of the now autonomous Government of Bengal; the new Labour Minister Suhrawardy, as we have seen, considered that his priority was the suppression of communism within the labour movement rather than interfering in employers' prerogatives.[68]

In addition to campaigns to improve welfare and labour relations, government reforms attempted to persuade employers to change their approach to the recruitment, training, and retention of labour. British managing agents and mill managers had little involvement in the recruitment of labour, particularly in the jute mill industry, and left recruitment, training and supervision to Indian intermediaries, whether the *sardar* in the jute industry, the 'jobber' in the cotton industry, or the *ticcadar* in the coal industry.[69] These intermediaries had a great deal of autonomy, had enormous control over the labour force, expected bribes from workers, and were often able to defraud employers (although it has been argued that this system was functional and that intermediaries also performed important welfare functions).[70] The Whitley Commission,

[65] See M. D. Morris, 'The Growth of Large-Scale Industry to 1947', in D. Kumar (ed.), *The Cambridge Economic History of India* (Cambridge, 1982), ii. 667. [66] Ibid.

[67] For this relationship, see W.B.S.A., Commercial Department, Commercial Branch, July 1932, A2–6. See also Chakrabarty, *Rethinking Working Class History*, 80–1.

[68] H. S. Suhrawardy, 6 Sept. 1937, *Proceedings of the Bengal Legislative Assembly*, 1103.

[69] For labour organization in the coal industry, see C. Simmons, 'Recruiting and Organising an Industrial Labour Force in Colonial India: The Case of the Coal Mining Industry c. 1880–1939', *IESHR*, 13: 4 (1976), 473–6.

[70] For this view, see Chandavarkar, *Origins of Industrial Capitalism*, 196.

however, considered that the efficiency of industry would be enhanced if dependence on labour contractors was reduced and employers became more involved in all aspects of labour organization; such changes had also been recommended by the Indian Tariff Board in 1926.[71] In general, businessmen in managing agency houses were hostile to any attempts by the state to involve itself in labour relations. In particular, they rejected government suggestions that their factory workforces should be managed in a more 'modern' manner and they approved strongly the extreme paternalism which the *sardari* system favoured. Several business witnesses agreed with L. Mitchell of Bird and Co., who argued that:

> What is important is the personal touch with the labour. I myself know each sardar by sight . . . The Senior men are in direct touch and consequently everyone below them is even more in touch . . . Tact and understanding of eastern conditions play a leading role. We have tried works committees, but they were not successful.[72]

Thus the Madras Chamber of Commerce, for example, opposed the compulsory intervention of the GoI in trades disputes and persuaded it to abandon compulsory arbitration.[73] By the late 1930s, managing agents in the jute industry acknowledged the advantages of systematic conciliation and arbitration procedures, particularly after the strikes of 1937; however, they insisted that they control these procedures themselves, and objected to any compulsory government intervention.[74] British managing agents vigorously opposed the government's proposals even when they might have benefited from them. In the late 1920s, for example, some elements within the IJMA believed that prohibiting mills from operating multiple shifts would be one way of safeguarding the cartel's control over output. When, however, the GoI proposed to outlaw the multiple shift system under the Amended Factories Act of 1927, many British businessmen were unhappy at the principle of government regulation. Basil Eddis commented that

[71] *Report of the Royal Commission on Labour in India, 1931* (London, 1931), v, part 2, 144–5; *The Indian Tariff Board (Cotton Textile Industry Enquiry)*, 1927, i. 133, 138–9.

[72] L. Mitchell, *Report of the Royal Commission on Labour in India, 1931*, Minutes of Evidence (London, 1931), v, part 1, 98–111.

[73] R. Tirumalai, *The Voice of Enterprise: 150 Years of the Madras Chamber of Commerce and Industry* (Madras, 1986), 193.

[74] Circular from the Secretary of the IJMA to all Members, 3 Sept. 1937, in the *Annual Report of the IJMA, 1937* (Calcutta, 1938), 132–5.

while he was 'no defender of the multiple shift system' nevertheless he resented any government interference.[75]

One of the reasons why the managing agencies objected to the GoI's intervention in labour matters was their rejection of the assumptions on which government policy was based, notably that India could develop a more efficient workforce by creating a more stable and educated working class. R. B. Laird, chairman of the Indian Jute Mills Association, insisted that no amount of training would raise the productivity of Indian jute mill workers because 'the weaver in this country simply does not want to work more than one loom'.[76] While the Bengal Chamber of Commerce observed that 'there is as yet no very strong desire to benefit from educational facilities . . . it would be a pity to force the pace unduly'.[77] Evidence of British businessmen to the Whitley Commission on Labour maintained that the Indian worker was essentially rural and migrant, and any attempts to educate, train, or create a stable workforce by ameliorating conditions and abandoning the labour contract system would fail. They accepted that the subcontracting system involved them in unnecessary costs, as contractors could fraudulently inflate the number of employees on a mill's register. However, they argued that there was little point in replacing them with direct recruitment designed to reduce labour turnover and absenteeism, because contractors were in a better condition to control such a migratory and unstable workforce.[78] The president of the Bengal Chamber of Commerce expressed a typical view of the futility of attempts to 'introduce modern industrial legislation', arguing that business in India had to 'face conditions and also prejudices of which a highly industrialised country knows nothing'.[79] These views of the nature of labour may have been strongly held, but they merely show the ignorance of the European businessmen of their workforces: recent research has shown that labour turnover was not significantly higher than in Europe, and that much of the industrial workforce of Calcutta and Bombay had become permanently urbanized even before 1914.[80] It not surprising, however, that managers and managing agents were unaware of this:

[75] B. Eddis to H. N. Gladstone, 27 Oct. 1927, MSS OG, file 2614.

[76] R. B. Laird, *Report of the Royal Commission on Labour in India, 1931* (Whitley), Evidence, v. 254.

[77] Note by the Bengal Chamber of Commerce, ibid. 359.

[78] Ibid. 150.

[79] *Annual Report of the Bengal Chamber of Commerce, 1929* (Calcutta, 1930), i, p. vi.

[80] Morris, '*The Growth of Large-Scale Industry*', 656–7.

their lack of interest in labour issues is suggested by the poor quality of their records on the labour employed in their factories.[81]

While it would be an exaggeration to claim that the GoI in this period was committed to the systematic development of the Indian industrial economy, it is nevertheless clear that there had been a change of approach and a whole range of government policies can be explained as part of a mildly developmental attitude to the state's role in the economy. Expatriate business was generally uninterested in these changes, and although it might well have used them to its own advantage it made little effort to exploit them. Despite many expressions of orthodox economic doctrine, these businessmen were not always opposed in principle to state intervention in the economy: they sometimes sought government assistance, as in the case of cartels and tariffs. However, they saw state intervention as a crisis measure, designed, essentially, to protect their traditional form of activity in what they perceived to be periods of unusual economic disturbance; they did not see themselves as potential partners in a governmental strategy of Indian economic development.

[81] For the complaint that employer records were inaccurate and poor, see *Report of the Royal Commission on Labour in India*, v, part 2, 144.

7
Business, Politics, and Reform, 1919–1947

> During my fifty-nine years I have not heard a single patriotic remark made in public by any businessman in India, neither have I heard even one effective speech. The Briton has been so frightened by public speaking that he has been afraid to open his mouth.
>
> Major Harry Hobbs, 1944[1]

The significant changes in the relationship between London and Delhi in inter-war India did not only affect the economic environment in which expatriate business operated. Political circumstances underwent even more radical change as the imperial government adopted a strategy of moderate reform and devolution of power, designed to preserve the imperial relationship in its essentials. Reform, however, took on a momentum of its own as nationalism developed from an élite to a mass movement.[2] Inevitably, these developments caused some anxiety among expatriate businessmen, but they seem not to have concluded that their position was seriously threatened by political change, and few made plans to leave India.[3] Given this commitment to remaining in India, expatriate business might have been expected to secure its economic interests by adapting to the new partially democratic political environment. The state encouraged such a response and showed itself willing to involve business in the process of reform by giving commercial interests political representation as a corporate body, with the

[1] Major H. Hobbs, *John Barleycorn in the East: Old Time Taverns in India* (Calcutta, 1944), 18.

[2] For the Non-Cooperation and Civil Disobedience Campaigns see J. Brown, *Gandhi's Rise to Power: Indian Politics, 1915–1922* (Cambridge, 1972), and id., *Gandhi and Civil Disobedience: The Mahatma in Indian Politics, 1928–34* (Cambridge, 1977).

[3] For the expatriate firms' attitude to disinvestment on the eve of independence see Chapter 8. Lipton and Firn argue, 'As British capital in the private sector in 1930 was £160–200 million, the figure of £154 million in independent India in 1948 shows that there cannot have been much net repatriation of capital between 1930 and 1948'; see M. Lipton and J. Firn, *The Erosion of a Relationship* (Oxford 1975), 80–1.

expectation that British businessmen would attempt to achieve a closer understanding with increasingly powerful Indian political and business élites.

However, just as most expatriate business rejected the economic opportunities offered by the state it was also unhappy with the new political role officials hoped it would play. With a few exceptions, expatriate businessmen continued to pursue a liberal approach to political economy: they used the political influence they retained to protect their traditional identity as autonomous private firms, immune from government intervention but legally protected from discrimination and from enforced indianization of their capital and personnel by a future nationalist government. In the medium to long term this was not a viable objective once the GoI was determined to concede as much economic power to Indians as was compatible with maintaining the imperial interest. However, even if such a goal had been attainable, expatriate business was not effective at pursuing it, in part because it persisted with a principled objection to formal involvement in politics as a corporate business interest. As a result of the failure of expatriate business to establish better relations with the GoI, it was left at independence with neither an informal arrangement with Indian business and politicians, nor any formal political safeguards.

The Government of India, Political Reform, and Expatriate Business, 1919–1927

Before 1919 British businessmen, in so far as they had exerted any influence on government, tended to do so through informal personal contacts with state officials.[4] The establishment of parliamentary institutions, introduced by the Secretary of State for India Edward Montagu and the Viceroy Lord Chelmsford in 1919 with the intention of encouraging Indian élites to collaborate with and participate in British institutions and of marginalizing radical nationalists, significantly altered the relationship between British commercial groups

[4] For an example of the relationship before 1919, see the case of William Mackinnon of Mackinnon Mackenzie, and his relations with the Governor of Bombay, Bartle Frere, in J. Forbes Munro, 'Scottish Overseas Enterprise: the Mackinnon Group, 1847–1893', *Scottish Economic and Social History*, 8 (1988); G. Tyson, *The Bengal Chamber of Commerce and Industry, 1853–1953* (Calcutta, 1953), 77; W. S. Blunt, *Ideas about India* (London, 1884), 57–60.

and the government.[5] In these new assemblies, both provincial and central, the electorate was expanded and elected legislatures had some powers over the election of ministers: certain ministries were 'transferred' to the control of the assemblies, including commerce and industry, education and health. Representatives were elected on 'class', 'interest', and 'communal' lines, that is, on the basis of property status, economic group, and religious or racial identity. Business, both Indian and British, was given corporate representation in the form of seats for business groups, but British interests had additional representation through its dominance of the general 'European Group' nominated by the non-official European community. Seats were reserved for particular business interests, such as tea, jute, coal, and the chambers of commerce. The European Groups were powerful in the Presidencies of Bengal, Madras, and Bombay, but they exerted most influence in Bengal, firstly because British business interests were concentrated in this area and secondly because the fragmentation of Indian political groupings in the Bengal Legislative Assembly gave them greater leverage.[6]

The government's strategy was seriously undermined in 1920 by the Indian National Congress's decision to boycott the assemblies and continue agitation for further reform, as it was now left with a diverse group of rather poorly organized Indian collaborators who were prepared to participate in the legislatures. Therefore the government saw the European business groups as important political allies and hoped that they would ensure that the assemblies could be made effective in alliance with 'moderate' Indians and Indian business and without the participation of Congress. So John Sykes, Governor of Bombay in 1930, encouraged 'a policy of close collaboration with Indian opinion and business with a view to convincing Indian opinion of our

[5] There is a large literature on the political and constitutional developments in India between 1919–35. On the Montagu-Chelmsford Reforms see P. G. Robb, *The Government of India and Reform: Policies towards Politics and the Constitution* (Oxford, 1976); for a comprehensive survey of the motivations behind constitutional reform in the period see B. R. Tomlinson, 'India and the British Empire, 1880–1935', *IESHR* 12: 4, (1975), 337–80. For a detailed account of the negotiations see R. J. Moore, *The Crisis of Indian Unity, 1917– 1940* (Oxford, 1974).

[6] For the representation of British business in local and central legislatures, see Table 9. See also S. Bhattacharya, 'The Colonial State and the "Interests": A Note on the Representation of Capital and Labour', in D. Tripathi (ed.), *State and Business in India* (Ahmedabad, 1987), 258–74. For the role of the European Group in the Bengal Legislative Assembly and its links with Muslim politicians, see S. Sen, *Muslim Politics in Bengal, 1937–1947* (New Delhi, 1976), 96.

bona fides and so withdrawing support from Congress'.[7] Business representatives were urged to collaborate with groups such as the National Liberal League of Bengal and the Western Indian National Liberal Association in order 'to prove there is a respectable volume of moderate opinion in Indian politics'.[8] Sir William Vincent, the Home Member of Bengal, adopted a rather more threatening note when in 1921 he warned the European Association (EA), a political organization dominated by European business interest, that

> it has to be borne in mind that India is going steadily on to self-government; while the government is prepared to maintain law and order it is not prepared to use the Defence of India Act for this purpose. [The EA should therefore] make common cause with the Indian moderates.[9]

In the same year, Colonel Wedgewood, a member of the 1918 Reforms Enquiry Committee, urged members of the EA to begin talks with moderate Indian politicians such as Congressmen Lala Lajpat Rai, Malaviya, and C. R. Das.[10]

Most British expatriate businessmen showed themselves unwilling to play the role that the GoI had envisaged for them. Initially, most were hostile to the reforms because, they argued, any devolution of political power to Indians would lead the state to discriminate against their interests. A typical view was that of an expatriate businessman who wrote to Lionel Curtis, the institutional theorist behind the new Indian Constitution, in 1917:

> If you destroy the present government you must put something in its place which will ensure that our interests are safeguarded . . . and that we are not placed at the mercy of the Bengal zamindars and lawyers.[11]

Similarly Watson-Smythe, president of the Bengal Chamber of Commerce in 1921, declared that:

> The business community of Calcutta is being attacked and will be attacked still more in the future . . . Are we going to sit quietly and submissively and accept

[7] E. A. Benthall, Diary, Dec. 1930, MSS Benthall, Box 7.

[8] *The Statesman*, 21 Feb. 1919.

[9] Minute book of the Council of the European Association, July 1921.

[10] Minute book of the Council of the European Association, Bengal Branch, 1 Jan. 1921.

[11] Quoted in J. H. Broomfield, *Elite Conflict in a Plural Society* (Berkeley and Los Angeles, 1968), 168.

from any legislative assembly or from any other organisation of Mr Gandhi what is vulgarly known as the order of the boot?[12]

Gradually, however, businessmen began to accept the reforms as a *fait accompli*, and turned their attention to organizing themselves against any further reforms; they were particularly worried by the introduction of bills by certain Indian business and political groups into the legislative assemblies calling for the restriction of certain sectors to Indian capital.[13] Their response to this threat was to demand constitutional safeguards from the government against discrimination, rather than to collaborate with Indians within the new political system.

In 1922, the European Association re-established itself with a new set of political objectives, which included the defence of British commercial interests to 'safeguard' them against discrimination and exclusion from particular areas of the economy.[14] It embarked on a series of sporadic attempts to lobby against political reforms, often by using contacts in London. Elements within the EA attempted to forge an alliance with the Indo-British Association in London, described by *The Statesman* as an organization which 'unashamedly pushes the propaganda of reaction'. In 1924, when there was some fear that the Labour government might bring forward the review of the Montagu-Chelmsford reforms, the chairman of the EA travelled to London to present the Association's case against reform to the government, and made an informal alliance with the members of the India Subcommittee of the Conservative Party.[15] However, despite the business community's attempts to forge a close relationship with the Conservative Party, it failed to secure commercial safeguards from the Simon Commission in 1927.[16]

It is not surprising, given their suspicion of Indian politicians' and businessmen's intentions, and their intransigence on issues of self-government, on the treatment of different races under the law, and on issues of economic policy that British business groups were not anxious to create formal alliances with Indian politicians or business

[12] The President's Speech, *Annual Report of the Bengal Chamber of Commerce* (Calcutta, 1922), i.

[13] G. Tyson, *Danger in India* (Calcutta, 1932), 50–66.

[14] Minute book of the Council of the European Association, 6 Dec. 1922.

[15] Minute book of the Council of the European Association, Bengal Branch, Apr. 1924.

[16] Submission of the Bengal Chamber of Commerce to the Simon Commission, quoted in R. J. F. Sullivan, *One Hundred Years of Bombay: A History of the Bombay Chamber of Commerce, 1836–1936* (Bombay, 1936), 152–3.

groups.[17] Rather, after 1921 they adopted a policy of covertly funding individual Indian candidates to support their position.[18]

More generally, there is considerable evidence that the EA and British businesses felt ill at ease with the new political arrangements and the expectation that they should take full part in the politics of the assemblies as a formal interest group. *Capital*, commenting on the Montagu-Chelmsford Reforms in 1919, asked sceptically: 'will there be found sufficient public spirit in the non-official European community of Bengal to fill the seats allotted to it?'[19] There were frequent complaints that managing agency partners were refusing to participate in the assemblies, and in particular that the more senior London partners prevented their colleagues in India from taking a sufficiently active role in politics. As Alexander Murray of Jardine Skinner, president of the Bengal Chamber of Commerce and one of the few reformist businessmen prominent in the period, complained:

> It behoves every man to take a hand in the game . . . and defend his rights . . . The old-fashioned idea that some firms have of restraining their senior men from taking a part in public life must be abandoned if we are not going to run the risk, during the next few years of critical change, of being attacked. The business community will be attacked still more in the future, and it requires the very best men . . . to put up adequate defences.[20]

The Round Table Conferences and the Government of India Act

Despite the government's promise that consideration of constitutional reform would be delayed for ten years and that further reform would be conditional on Indians operating within the constitution, it brought forward the constitutional review by two years. The Simon Commission was appointed in 1927, which produced a conservative document recommending the creation of complete provincial autonomy, but without proposing further reform at the centre; it also maintained

[17] For the alienation of Indian opinion in the Bengal Assembly on economic issues, see G. D. Birla to P. Thakurdas, 7 Dec. 1923, Thakurdas papers, file 42, part 4. For conflict over equality of treatment under the law, see *Annual Report of the Bengal Chamber of Commerce, 1921*, vol. i, proceedings of the annual general meeting, 28 Feb. 1922.

[18] Minute book of the Council of the European Association, 1922–26, 31 Oct. 1922.

[19] *Capital*, 31 Jan. 1919.

[20] *Annual Report of the Bengal Chamber of Commerce*, i (1920), p. iv.

Governors' veto powers.[21] These proposals helped to create a brief period of unity between the moderates and Congress and they threatened to launch a second campaign of civil disobedience unless reform at the centre was granted. The British government responded by suspending judgement on the Simon Commission's report and inviting representatives of Indian and British opinion to a series of Round Table Conferences between 1930 and 1932.[22] The first conference in 1930, boycotted by Congress but attended by the Princes, the Muslims, moderate politicians, and various other minorities agreed to full provincial autonomy and a federal constitution at the centre. According to this constitution, the central state would be relatively weak with power-sharing in the lower chamber and a newly created upper chamber composed of princes; residual powers would go to the provincial governments and Princely States.[23] These concessions, combined with pressure from Indian business, led Gandhi to make concessions in turn; he suspended civil disobedience and agreed to attend the second Round Table Conference in September 1931, accompanied by Thakurdas and Birla.[24]

Throughout this period, the GoI considered that the position of British business was vital to its political strategy. It wished to court Indian business and hoped that British businessmen would assist it in this. After the First World War relations between the GoI and Indian business élites had come under strain for various reasons: most Indian businessmen objected to the GoI's monetary and exchange rate policies, its refusal to grant further protection to the cotton and steel industries; they were also critical of the severe deflationary policies imposed from London during the financial crisis of 1931 and subsequent trade depression.[25] At the second Round Table Conference Indian business delegates raised strenuous objections to the inclusion of financial safeguards in any new constitution, which would, as they correctly perceived, have left ultimate control over Indian monetary policy with British officials accountable only to the Treasury. They were also unhappy about the inclusion of commercial safeguards, that is, of constitutional guarantees of protection from commercial discrimination,

[21] The British Conservative government appointed the commission in order to pre-empt action by any future Labour government; see Moore, *Crisis of Indian Unity*, 34.

[22] R. Coupland, *The India Problem, 1833–1935*, part I of a report on the Constitutional Problem in India [1942] (Oxford, 1968).

[23] Moore, *Crisis of Indian Unity*, 132–65.

[24] For business pressure on Gandhi, see C. Markovits, *Indian Business and Nationalist Politics, 1931–39* (Cambridge, 1985), 77.

[25] Ibid. 68–78.

demanded both by Lancashire cotton interests and by expatriate business. However, despite these poor relations, the GoI considered that a reconciliation with business was essential if it was to achieve its broader political strategy of weakening Congress. It believed with some justification that Indian business leaders, worried by labour unrest and by Congress's move to the left after 1929, were moving away from Congress.[26] It therefore hoped to foster this division between Congress and Indian business by making concessions on commercial safeguards, while refusing to compromise on the question of financial policy. These concessions would, of course, have required British business to abandon its demands.[27] As will be seen, despite support from businessmen such as Edward Benthall and Hubert Carr, both business representatives at the second Round Table Conference, such initiatives were blocked by the conservative majority among British expatriate businessmen in Calcutta.

The London government and the GoI hoped that rather than demanding commercial safeguards, British business would forge political alliances with Indian businessmen, securing expatriate business interests by agreement rather than by legislation. So, in April 1931, George Schuster proposed the creation of a 'Bengal National Party', which would unite business interests, both Indian and British.[28] Similarly, Governor Anderson of Bengal urged the political organizer of the European Group in the Bengal Assembly, Frederick James, to consider the proposals from the Indian businessmen N. R. Sarkar and Homi Mody, to form a 'Constitutional Party'.[29] James wrote:

> I was surprised to learn how keenly His Excellency feels about this . . . He was very free in his strictures on the present European Group and its leadership.[30]

Overtures from Indian businessmen similar to those of Sarkar and Mody for closer co-ordination of political activity and even political alliances, were common throughout this period. As early as 1919 Mody had suggested the formation of a joint Anglo-Indian Employers' Federation of India (EFI), but it had come to nothing because British

[26] For the development of attitudes within Indian business élites towards nationalist politics in this period, see ibid. 68–94.

[27] E. Benthall's diary, 18 Sept. 1931, MSS Benthall, Box 7.

[28] Note by Benthall on a discussion with Sir George Schuster, 18 Apr. 1931, MSS Benthall, Box 7.

[29] Frederick James to E. Benthall, 26 Aug. 1935, MSS Benthall, Box 9.

[30] Ibid.

business showed little interest. Mody again proposed its establishment in 1929; according to his idea, the EFI would:

> take all steps to provide and protect the commercial and industrial development of India; to ensure adequate representation of industrial employers in the new legislatures; to promote schemes for the rationalisation of industries; to take steps necessary to promote or oppose legislative and other measures.[31]

Similar offers were made during the second Round Table Conference by a group of Indian liberal politicians, the Indian Liberal Group, who suggested that both British and Indian business groups should give up their special commercial representation and unite in a new 'Centre Party'.[32] Between 1933 and 1935 further offers were made by Mody and Sarkar to join their 'Constitutional Party', a new business party operating at the level of the central legislative assembly.[33]

The response of expatriate business during this period did not, however, accord with the India Office's and the GoI's plans. Business adopted a generally inflexible attitude to constitutional reform and particularly to the question of safeguards; it insisted at the second Round Table Conference, unsuccessfully, that it be granted complete protection against discrimination, preferably in the form of a convention signed by London and Delhi, before any reforms were implemented. Having been rebuffed by the India Office, the representatives of British business, Benthall and Carr, did attempt to form alliances with Indian businessmen in order to further their objectives. G. D. Birla, a close confidant of Gandhi and a representative of Indian business interests, was willing to concede commercial safeguards if financial safeguards were abandoned and India was given financial autonomy.[34] Edward Benthall, believing that commercial safeguards were much more important than financial safeguards, attempted to persuade the India Office, the Treasury, and the Bank of England and City representatives to make some concessions to Birla, but in vain.[35] Hence, British officials and financial interests seem to have sabotaged one of the few potential alliances between British and Indian business.

British business continued to press for the strongest possible com-

[31] President's Address, *ASSOCHAM, Annual Report and Correspondence* (1931), i, p. vi.

[32] E. Benthall's diary, 18 Sept. 1931, MSS Benthall, Box 2; ibid. 29 Jan. 1932.

[33] T. Chapman-Mortimer to E. Benthall, 12 Nov. 1935, MSS Benthall, Box 9; Minute book of the Council of the European Association, 23 June 1933.

[34] E. Benthall, note on a meeting with G. D. Birla, 4 Oct. 1931, MSS Benthall, Box 2.

[35] E. Benthall, notes on the second Round Table Conference, 5 Oct. 1931; 6 Nov. 1931; 12 Nov. 1931, MSS Benthall, Box 2.

mercial safeguards, but the GoI and the India Office were unsympathetic, believing that the best way for expatriate businessmen to secure their future was by co-operation with Indian business and even by converting their firms into rupee companies.[36] Thus, in the negotiations over the new constitution, business representatives failed to achieve their first preference, a commercial treaty which would have bound future reformed governments, or its second preference, which would have enshrined protection within the constitution, enforceable by the Privy Council.[37] Instead, the Government of India Act of 1935 inserted safeguards into the constitution, but they were only enforceable by the use of the Governor-General's emergency powers. As both Indian and British businessmen recognized, it was very unlikely that the British state would have jeopardized Indian political co-operation on this issue, and in reality the safeguards were meaningless, as India Office officials made clear in 1937. Thomas Chapman-Mortimer, a political official of the EA Bengal Group, was told that:

> The European community have made a great mistake if they think that their commercial position will be protected in future by the Governors or the Governor General through their special powers.[38]

According to Chapman-Mortimer official opinion was that

> if the Europeans were to safeguard their interests in the next few years, then they must pursue a 'far-sighted and liberal policy' and organise themselves politically. If we fail in these two respects our commercial interests will suffer seriously.[39]

A group of prominent, more progressive businessmen, including Alexander Murray, Edward Benthall, and Sir Hubert Carr, was prepared to accommodate official demands and advocated a policy of progressive association with moderate Indian politicians and businessmen. So Benthall favoured an alliance with the Indian Liberal Party, although this was never likely to have much significance as the party was small and inconsistent, and, in the words of Thomas Chapman-Mortimer, lacked contacts with 'the Hindu in the street'.[40] A more promising strategy, Benthall believed, was to ally with non-nationalist

[36] C. Mortimer to E. Benthall, 2 Dec. 1937, MSS Benthall, Box 15.
[37] E. Benthall to G. Morton, 12 July 1932, MSS Benthall, Box 2.
[38] E. Benthall to T. Chapman-Mortimer, 13 Dec. 1937, MSS Benthall, Box 10.
[39] Ibid.
[40] T. Chapman-Mortimer to E. Benthall, 26 Aug. 1935, MSS Benthall, Box 9.

Indian business and leaders such as Tata and Mody. In 1933 the Employers' Federation of India (EFI), long advocated by Tata and Mody, was established and included the Indian Bombay Millowners' Association, and British organizations, such as the IJMA, the Indian Mining Association, and the Indian Tea Association.[41] Benthall hoped that it might evolve into a political organization, arguing that although their interests might diverge on some issues, 'in many respects the interests of the employers are identical and the cooperation of European and Indian employers is likely to form a community of interests which may be of the utmost value to all'.[42] In the future, argued Benthall, parties were likely to divide on 'economic' rather than 'racial' lines and European and Indian business interests would combine against 'socialistic' measures.[43] So, Benthall argued that:

> as India develops it would be illogical for a community consisting of only 0.5% [of the population] of Bengal to claim some 12% weightage. If however the principle of representation of commercial interests is recognised, obviously we have a very good claim . . . we should undoubtedly be in a very strong position if we had stronger Indian elements in our chambers [of commerce].[44]

Benthall's progressivism should not, though, be exaggerated: on the eve of the first Round Table Conference he made his mistrust of Congress clear, commenting 'the old regime is dead . . . but we shall come safely through for facing a huge Hindu block we have potential allies in the mussalmans and the [princely] states'.

However, even Benthall's mild overtures to Indian business exposed the deep divisions within the community: the majority of business opinion was opposed to collaboration with Indians and preferred instead to seek protection as an official minority, acquiring a status under the new constitution equivalent to that of the Muslims and Indian Christians. At a joint meeting of the EA, the European Group, and the Chambers of Commerce in April 1932, it was decided that Benthall's proposals for alliances with Indian business were unacceptable, and 'what is more important is to consolidate a European Party'. This position mirrored that of the Bengal Chamber of Commerce, which held that British commercial interests should be made a

41 *Annual Report of the Associated Chambers of Commerce, 1933* (Calcutta, 1933), Minutes of the Annual General Meeting, 9 Jan. 1933.

42 E. Benthall to G. Morton, 17 Nov. 1935, MSS Benthall, Box 9.

43 E. Benthall to G. Morton, 18 Sept. 1931, MSS Benthall, Box 2.

44 Note by E. Benthall, 15 Oct. 1931, MSS Benthall, Box 2.

'statutory minority with special representation'.[45] The views of Benthall and Carr, who represented the British non-official community at the Consultative and Joint Select Committee stages of the Government of India Reform Bill, was so controversial that an extreme group within the EA, the 'Royalists', co-ordinated a press campaign against Carr in London, which claimed that Carr's views were not those of the majority of the British in India and that the government should go no further than the Simon Commission's proposals.[46]

Associated with their attempts to secure safeguards as a racial minority, British business organizations campaigned to weaken the powers of a federal centre and strengthen those of the provinces. Businessmen preferred to operate at a provincial level, where they could influence individual Indian politicians behind the scenes and where they did not have to collaborate with political parties, to All-India politics, where the interests of Congress, and Indian business in Bombay and Ahmedabad were more influential. Even Benthall pursued this aim, and came to an agreement with the Muslim delegates at the second Round Table Conference that they would support Muslim demands for a weak centre and provincial autonomy, in return for which the Muslims would support commercial safeguards for the British.[47] This strategy was successful, and the European Group retained its substantial representation in the autonomous Bengal Legislative Assembly with 10 per cent of the seats, and was important enough to the maintenance of the coalition of the Muslim League and the Muslim Krishak Praja Party for it to retain some influence. It enjoyed close contacts with prominent politicians in the ministry, particularly the Prime Minister F. Huq and the Labour Member H. S. Suhrawardy.[48]

[45] Tyson, *Centenary History of the Bengal Chamber of Commerce*, 127.

[46] Details of this episode have been pieced together from the following sources: Governor's Fortnightly Reports, Bengal, 1 Nov. 1931, MSS IOLR, Public and Judicial Files, 12/25/1931; the minutes of the European Association Executive Committee, Calcutta Branch, Dec. 1931; letter to *The Morning Post*, from 'Men on The Spot', 11 Jan. 1932, MSS Benthall, Box 7.

[47] Note by Benthall, 18 Sept. 1931; 30 Sept. 1931; 15 Oct. 1931. Confidential report to the Bengal Chamber of Commerce, 12 Jan. 1932, MSS Benthall, Box 2.

[48] E. Benthall to G. Morton, 11 May 1937, MSS Benthall, Box 12. For more detail on the relations with Muslim politicians, see H. Momen, *Muslim Politics in Bengal: A Study of the Krishak Praja Party and the Elections of 1937* (Dacca, 1972).

War and Independence

The outbreak of war brought about the final and most radical phase of political reform, but did not lead the managing agencies significantly to reappraise their position. The decision by the GoI to commit India to the Second World War without any consultation resulted in the resignation of all seven Congress provincial ministries and the GoI realized in 1940 that, if it was to secure greater Indian co-operation in the war effort, more concessions would need to be made, or at least promised for the future. With this in mind it made the August Declaration that after the war was over full dominion status would be granted to India;[49] the Declaration was, however, insufficient to attract nationalist support. By 1941 the Americans were putting more pressure on Britain to conciliate Indian opinion and some gesture to Indian national feeling was becoming politically essential.[50] Moreover, even at this early stage in the war, the British government was anxious to devise a strategy which would preserve Britain's long-term economic interests in India from American commercial encroachment at the end of the war; in particular the British feared that American companies would be able to compete more effectively than British companies in a rapidly industrializing Indian market. Officials and politicians in the India Office, and particularly R. A. Butler, then Under-Secretary of State for India, argued that it was essential to secure the goodwill of Indian businessmen if British exporters were to succeed, and this would require the abandonment of any protection of the interests of expatriate business, which was producing so much ill-feeling towards Britain. He suggested that if America and Britain were to maintain their economic superiority over Germany, Japan, and the USSR they would have to find large new markets, 'ripe for development'. America would be allocated China and Britain would be given India, but this would entail

> sacrifices of certain old lines of trade in order to secure new business . . . the safeguards which were embodied in the Act of 1935 for the protection of British interests already established in India would operate to the prejudice of the establishment of new ones . . . there would be no similar features deterring American trade.[51]

[49] For further details of the politics of this period see R. Moore, *Churchill, Cripps and India 1939–1945* (Oxford, 1979); R. Coupland, *Indian Politics, 1936–1942* (London, 1943); G. Rizvi, *Linlithgow in India* (London, 1978).

[50] Moore, *Cripps and India*, introduction.

[51] Memorandum from R. A. Butler, 'Postwar economic questions', 10 Sept. 1941, CRD R. A. Butler Papers, file 3/2.

The collapse of Singapore and Rangoon in early 1942 convinced the London cabinet that more efforts had to be made to enlist Congress's support for the war effort in the East, and in March 1942 Cripps offered dominion status, or full independence with the right of any of India's states to opt out of an All-India Federation if they wished.[52] Cripps followed Butler's view that commercial safeguards would have to be abandoned, and had little sympathy for the continuing intransigence of British business interests on the issue. Cripps made it clear to a delegation representing the EA and the Bengal Chamber of Commerce that the interests of British capital were very low on the government's list of priorities. They had already enjoyed, he acidly observed, 'a good innings'.[53] He was pessimistic about their chances of gaining special representation in any post-war constituent assembly, and on the question of their possible future expropriation he pointed out that even the views of the Conservatives were changing on the question of the sanctity of private property.[54] In conclusion, he offered no protection of their assets either by safeguards or by the guarantee of a post-war trade treaty; nor would expatriates be recognized as an official protected minority. Cripps informed the Chamber delegation that the best hope for their companies lay in transferring them entirely to India. If businessmen were worried about discrimination under an Indian government, he counselled them to adopt Indian citizenship.[55]

Expatriate business responded to these developments as they had to previous constitutional changes: a few businessmen attempted to adapt to the new circumstances, both by conciliating the governments in Delhi and London, by attempting to make alliances with Indian businessmen and officials, and by making concessions on safeguards and indianization of their firms. However, the majority continued to pursue their traditional position, demanding that the British government should honour the safeguards and continue to protect them.

A group of moderate businessmen with close links to the government in London, such as Lord Catto, who was still associated with Yule managing agency house and was a senior financial adviser to the British government, now accepted that rapid and significant reforms were inevitable and that the best strategy for British business interests was

[52] See J. M. Brown, *Modern India: The Origins of an Asian Democracy* (Oxford, 1994), 317.
[53] T. Gladstone to A. Gladstone, 25 Apr. 1942, MSS OG, file 2632.
[54] E. Benthall to G. Morton, 3 June 1944, MSS Benthall, Box 14.
[55] Note of a meeting on the sterling balances negotiations, 12 Dec. 1946, Treasury Papers, T236/1117.

to support them. In particular, it had to accept an end to safeguards in order to appease Indian opinion and place British interests on firmer foundations. This was in large part a concession to Indian business opinion. While many Indian businessmen believed that the commercial safeguards had not in fact impeded Indian industrial development, they were committed to their abandonment in their current form; G. D. Birla expressed the view that 'Gandhi would have no objection to rights of property and merely wanted powers to examine concessions that had been made not in India's interests'.[56] In 1942 Catto made a speech in the House of Lords calling for the immediate abandonment of the commercial safeguards.[57] He considered that the best means for providing for the future of British business in India after the war would be for the Associated Chambers of Commerce to negotiate directly with the Federation of Indian Chambers of Commerce and Industry on this issue and reach an agreement on safeguards after the war.[58]

Catto's position, however, was not shared by the majority of the EA, including Benthall, and he encountered strong criticism.[59] Benthall had a greater mistrust of a future Indian government, and he argued that the European community should not support any offer of full dominion status for India unless a trade treaty, enforceable under international law, had already been agreed to by Indian politicians.[60] This view was shared by the EA, which insisted that no further offers of reform should be made to Indian politicians, either during the war or for some time after. They were complacent about the resignation of the Congress ministries, believing that perfectly adequate provincial administrations could be created by councils of non-officials, that is, in effect, by the European Community and Indian loyalists.[61] This position, obviously, was diametrically opposed to that of the British government, and suggests a political and intellectual isolation from government circles.

Even so, the EA continued to believe that it would be possible to persuade politicians and officials in London to change their policies,

[56] Note by E. Benthall on discussion with N. R. Sarkar, 22 Feb. 1940, MSS Benthall, Box 7.

[57] This speech is reported by A. Gladstone to T. Gladstone, 2 Mar. 1942, MSS OG, file 2632.

[58] E. Benthall's note on the position of the European Group in the Central Legislative Assembly, 20 Mar. 1940, MSS Benthall, Box 19.

[59] E. Benthall to G. Morton, 12 Feb. 1942, MSS Benthall, Box 17.

[60] Ibid.

[61] Circular from the Executive Committee of the Central Council of the European Association, 1 Nov. 1939, Minute book of the European Association, 1939.

and to this end reform the EA's London Committee. However, the Committee had little impact, because it had few significant contacts in the India Office and because its membership had a particularly 'die hard' character, including veterans of the anti-reform Salisbury Group of the early 1930s.[62] One senior official of the India Office dismissed a representative of this organization:

> None of these gentlemen strike me as another Murray or Rhodes; and we don't know them well enough to draw them in on what must be a rather *sub rosa* basis.[63]

On the eve of the Cripps mission, the insistence of British business on maintaining its traditional position ensured that it had little influence with government. As Thomas Gladstone recognized:

> the powers that be are heartily sick of the Clive Street influence and attitude, and their views, when it comes to the point, are likely to receive scant attention [from Cripps]. This is, of course, unfortunate, but we, or certain among us, have brought it on ourselves . . . It would appear that His Majesty's Government in their deliberations at home have consulted no one in the European commercial community out here. If this is the case it is in line with what I foretold, that when the time came for a new deal we should not be consulted.[64]

As has been seen, Gladstone's pessimism proved well founded. When Stafford Cripps visited India in March 1942 he had little time for business concerns. Although he agreed to see representatives of the European community, he left them in no doubt that he was 'little interested in the British in India' and that 'they should look for no support from him'.[65]

Following the Cripps mission, expatriate business did not abandon its hope of influencing policy towards reform and independence. Having been rebuffed by government, it decided to try to appeal to public opinion, this time including larger multinational interests. However, this innovative approach encountered the typical problems of collective action which affected these businesses' political organization. Benthall had first contemplated establishing a body to promote business interests in India when he was working in the Ministry of Information

[62] Ibid.
[63] India Office departmental note, 24 Setp. 1945, IOL L/E/9/206, file 5.
[64] T. Gladstone to A. Gladstone, 4 Mar. 1942, MSS OG, file 2632.
[65] R. Haddow (president of the ASSOCHAM), *Confidential Memorandum on the British Business Delegation's meeting with Cripps*, 21 Apr. 1942, MSS OG, file 2632.

in January 1941.[66] He envisaged a body that would represent the European Association, the chambers of commerce, former business 'personalities', and government notables. Initially, Benthall saw the function of such a committee as primarily to 'consider and present to HMG any proposals which you [businessmen] in India might wish us to undertake'.[67] While keeping a close eye on the India Office it would work to counter Congress propaganda in Britain and America and to maintain contact with the British government on constitutional policies.[68] To this end he established an informal advisory committee consisting of representatives from Burmah-Shell, ICI, BAT, Mackinnon-Mackenzie, Harrison and Crossfields, Steel Brothers, and Lever Brothers, which eventually became the India–Burma Association (IBA) in October 1942.[69] However, the managing agency houses in India were not so enthusiastic about a propaganda committee in London dominated by these multinational industrial companies. Smaller managing agencies suspected that it would be used primarily to promote large industrial interests which were well represented in London.[70] The Bengal Chamber of Commerce threatened to boycott the organization and Morton had great difficulty raising subscriptions from the British firms in Calcutta. He did so only on the condition that the India branch of the propaganda committee be allowed to nominate a far larger percentage of the representatives to the London committee than Benthall had anticipated.[71] The EA was, as usual, obstructive:

> As you know there are many others who would not agree with us, it matters little who nominates members of the committee so long as they are the right men; but if it looks like the London end is taking control it could have serious repercussions. This country stinks with intrigue and enemy activity; it's easy to play into the hands of the enemy without, perhaps, realising it.[72]

The IBA had two broad strategies: firstly, to appeal to general public opinion through the appointment of a press liaison officer to brief leader writers, give talks on radio, and lectures in schools, Rotary Clubs, and Women's Institute meetings; secondly, to lobby parliamentary and

[66] Memorandum by E. Benthall on the establishment of the Indian Advisory Committee in London, 25 Apr. 1941, MSS Benthall, Box 17.

[67] Memorandum by E. Benthall, 25 Apr. 1941, MSS Benthall, Box 17.

[68] Ibid.

[69] *Memorandum on the first meeting of the India Advisory Committee*, MSS OG, file 2631.

[70] A. Gladstone to T. Gladstone, 5 Sept. 1941, MSS OG, file 2631.

[71] Morton to Benthall, 28 Oct. 1941, MSS OG, file 2631.

[72] European Association (Calcutta branch), *Minutes of the Executive Committee*, Sept. 1941.

official opinion.[73] However, its message was fundamentally a non-economic one, which seems peculiar in the circumstances. Given the government's interest in promoting British exports and trade after the war, an obvious strategy would have been to emphasize the importance of the managing agents to the Indo-British economic relationship. Benthall, however, considered that an economic message was not appropriate and would not work: he argued that businesses should couch their appeal for consideration in the post-war settlement not in terms of the 'protection of our interests'.[74] Rather the IBA attempted to propagate a rather vague message, stressing the benign impact of British business on India and the close emotional links between Britain and India. As Albert Gladstone, a member of the Calcutta branch of the EA explained: 'it is the great weakness of the situation that apart from considerations of imperial strategy and political obligations the only direct interest in India is largely commercial.'[75] Persuading the British people of the justice of the expatriate community's privileges in India would, therefore, be very difficult:

> Because of the absence of common background of emotional sympathy as exists with the Dominions, we must create a bond of sympathy. This won't work if we merely stress Imperial strategy and commercial interests, which is likely to be out of tune with post-war political trends.[76]

Hence, much of the strategy of the IBA consisted of the distribution of bland material such as their pamphlet *Pictures of India*.[77]

It is clear that none of these efforts by business had any effect on government policy. In the autumn of 1944 a Board of Trade memorandum stressed the importance of cultivating Indian industrialists such as Tata and Birla, who was currently visiting Britain and who might, it was thought, be wooed by the Americans.[78] In contrast, representatives of British expatriate business found it difficult to gain access to officials. In June 1945 Haddow, president of the Associated Chambers of Commerce, found that everyone was too engrossed in the general election to discuss the future of British business in India.[79] Even R. A. Butler, who was generally sympathetic to expatriate business

[73] *Memorandum on the Indian Advisory Committee*, Apr. 1941, MSS OG, file 2631.
[74] E. Benthall to G. Morton, 22 Feb. 1942, MSS Benthall, Box 17.
[75] T. Gladstone to A. Gladstone, 2 Apr. 1942, MSS OG, file 2631. [76] Ibid.
[77] Hubert Carr to R. A. Butler, 17 May 1945, CRD R. A. Butler Papers, 3/3.
[78] H.A. Shannon memorandum, 'Industrial cooperation in India', Autumn 1944, CRD R. A. Butler Papers, file 3/3.
[79] T. Gladstone to A Gladstone, 12 June 1945, MSS OG, file, 2634.

interests, told Sir Hubert Carr, president of the IBA in May 1945 that he was too busy to see him.[80] Similarly Benthall, who had been a member of the Viceroy's Council during the war, noted:

> It seems quite certain that British business will be ignored in every way and we shall be left to fight for ourselves. In one and a half years of office I have had no single political talk or any discussion of the future of British business in any form with the Viceroy.[81]

The failure of business interests was confirmed during the final negotiations for independence. In 1946 the Treasury even contemplated investigating the demands of some Indian politicians that expatriate interests be compulsorily sold to Indian businessmen as part of the settlement of Britain's sterling balance debt to India. A Treasury note commented:

> While on balance the United Kingdom would suffer if the British expatriate firms were to be expropriated should the balances be blocked, the matter is nonetheless a matter for debate.[82]

At independence, expatriate business had completely failed to persuade the British government to secure its interests. No safeguards were granted, expatriate business was not given seats in the Constituent Assembly as a minority, and there was no attempt by the British government to negotiate a trade convention or treaty covering mutual commercial interests before independence; there was not even an agreement on double income tax relief between the two countries, which was particularly damaging to expatriate business.[83]

Given the limited but significant transfer of economic power from London to India and to Indians that was taking place in the 1920s and 1930s, it was vital for the economic interests of expatriate business in India to have a political strategy. However, the expatriate community was clearly unable to develop an effective response to political change. This was partly because the GoI's priority was to find Indian collaborators to operate the new assemblies and it was, therefore, unable to put

[80] Butler to Carr, 17 May 1945, CRD R. A. Butler Papers, file 3/3.
[81] E. Benthall to G. Morton, 3 June 1945, MSS Benthall, Box 7.
[82] Note of a meeting on the sterling balances negotiations, 12 Dec. 1946, Treasury Papers, T236/1117.
[83] Such an agreement was still being negotiated in 1952; see B. Elkins to A. Gladstone, 23 Aug. 1952, MSS OG, file 2638.

the interests of British businessmen above those of their Indian counterparts. However, this did not deprive British business of opportunities in the new political order. Initially British expatriate business itself was seen as a useful collaborator group. Thus, the GoI granted British business representation and encouraged it to develop its influence through formal political organization. However, expatriate business found it difficult to take this course for a number of reasons, connected with their political goals, their capacity for collective action, and their more general attitude to business involvement in politics.

As has been seen, the political goals of expatriate business were unrealizable and their commitment to autonomy and racial exclusivity could not be sustained. Also, businessmen found it difficult to organize collectively: firms resented releasing their senior executives to sit in the assemblies, there were constant quarrels over levels of political funding, and there were internal rivalries and differences of commercial interest.[84] Both their political goals and their organizational shortcomings reflect their powerful attachment to their traditional autonomy, against the encroachment of the state, Indians, or other firms. These were part of a more general liberal approach to the relationship between business and politics, which is evident in the statements of businessmen. Expatriate businessmen considered that the state had only a very limited role: to protect them against interference and discrimination. They were unwilling to operate as an organized business group within the mildly corporatist framework established by the GoI. They did not mind negotiating with individual politicians in private, and their standard response to political change was to attempt to change opinion in the India Office through personal contacts. Ironically, this approach to politics, while increasingly ineffective in dealing with the GoI and London, proved to be useful when dealing with Indian politicians in the new autonomous provincial governments of the late 1930s and, as will be seen in the following chapter, the independent Government of India.

[84] See above, Chapter 6.

8

British Business and Independence, 1947–1970

> One of our honourable friends has said that the word 'British' must go from everywhere. I think we shall not be able to do that. We cannot eliminate the word 'British' from the dictionary. It has to be there so long as Britain is an important industrial country. We have to enter into a trade agreement and the only thing to call it is the 'Indo-British Trade Agreement'. We cannot call it otherwise. That is a demand impossible of fulfilment.
>
> D. P. Karmarkar, 1952[1]

Independence saw the transfer of many of the agency houses to Indian control. Such transfers were, however, often partial rather than complete, and a British financial interest was often maintained in many of the old firms until the 1960s and in some cases beyond. A wave of substantial disinvestment coincided with the years immediately preceding and following independence, but by the late 1940s this had ceased;[2] there was a period of consolidation in the early 1950s, only to be followed by renewed disinvestment after 1956.

Attitudes to the coming of formal independence among British businessmen in India varied. While some agency house partners were pessimistic about the prospect and were eager to leave, others, particularly those in the larger houses such as Bird, Yule, and Balmer Lawrie, believed that they had a future in India. This optimism was, however, tempered by the realization that this future was now heavily dependent on the actions of a Congress government which contained radical elements committed to economic nationalism and state control over

[1] D. P. Karmarkar (Congress politician and spokesman in the Ministry of Commerce and Industry), 14 Nov. 1952, IOLR, MSS Eur. IPBA, file 95.

[2] It is difficult to give precise figures for disinvestment, a 1955 Reserve Bank of India Census showed that between July 1947–June 1954 81 foreign firms were sold *in toto* to Indian buyers and another 17 were entirely liquidated. The total amount of foreign private capital invested in India was not known, but remittances made on account of these 98 transactions were Rs 1800 lakhs. See IBPA Bulletin, 15 Dec. 1955, IOLR, MSS Eur. 158, file 64A (Companies in India).

the economy. The agency houses were to some extent sensitive to the concerns of economic nationalists in the government, and there was a degree of indianization of staff and directorships, but this happened surprisingly slowly given the political sensitivity of the issue; the firms also failed to change their approach to business more generally, refusing, for example, to diversify into modern sectors, a strategy which would have given them a stronger justification for their continuing presence in India. It is therefore not surprising that they continued to be the focus of nationalist hostility nor that the managing agencies were damaged by legislation which severely curtailed their activities.

Congress and the Managing Agency Houses

The economic policy of the Congress party changed significantly between 1945 and 1960, particularly in relation to the two central issues of socialist planning and economic nationalism. Between 1945 and 1948 its rhetoric was distinctly unfavourable to British business interests in India. Among the objectives set out by Congress in its election manifesto of 1946 were commitments to nationalization of basic industries and services and government control of currency, exchange, insurance, and banking.[3] Ardeshir Dalal, a director of Tata, a member of the Congress Planning Commission, and the author of Congress's 1945 Industrial Policy Statement, argued that the only way to restrain foreign capital was by statutorily limiting it to a minority interest in all Indian companies in leading sectors.[4] Any new venture involving foreign participation in these fields should have at least 70 per cent Indian equity with voting rights. Existing British companies (those with sterling capital, with over 30 per cent non-Indian shareholders, or with a non-Indian board of directors) could remain, but any expansion of more than 25 per cent of the current value, or of Rs 1 million, would be subject to the new rules. British managers and managing agencies could stay in place for up to twenty years, but only if they trained Indians to replace them.[5] All of the fears that British business harboured about the economic future were crystallized in the Report of the Economic Programme Committee of

[3] See [*Eastern Economist Pamphlet*], *India: 1946* (New Delhi, 1947), introduction.

[4] Speech by Ardeshir Dalal, reported in *The Eastern Economist*, 23 Nov. 1945.

[5] These details are reported in the Bengal Chamber of Commerce, *Annual Report and Correspondence, 1945* (Calcutta, 1946), i, p. viii.

the All-India Congress Committee, which became party policy in January 1948.[6] The report urged the radical redirection of economic policy, including a ceiling on income and land-holdings, the reservation of the production of consumer goods to cottage industries, the abolition of the managing agency system, a maximum of 5 per cent profit on venture capital, statutory price controls, and the transfer of key industries to public ownership after five years.

More directly significant for the managing agencies, however, were the taxation changes introduced by the budget of February 1947.[7] The budget brought enormous tax increases for business, both Indian and British, and provided an added incentive for the managing agencies to leave; as Geoffrey Tyson, the former editor of *Capital*, explained, 'business confidence had been gravely shattered by the budget of February 1947'.[8] In 1948, the agencies suffered another blow when it was announced that any company in which less than 51 per cent of the voting shares were in public hands would be assessed as 'an association of individuals' at rates applicable to individuals, rates which were far higher than corporation tax.[9] This was not designed to hurt British firms in particular, but it did have a greater effect on British firms than on Indian firms, most of which had already become public. Thomas Gladstone argued that this meant

> . . . almost the last pool in which funds for the expansion of a business can be accumulated is to be drained for the sake of collecting additional taxation from the large shareholders.[10]

Even so, these measures did affect important Indian economic interests and began to provoke opposition from parts of the Indian business community and from those sections of Congress associated with them. A number of events combined to strengthen this more conservative

[6] Bengal Chamber of Commerce, *Annual Report and Correspondence, 1948* (Calcutta, 1949), i, p. xviii.

[7] Although Congress itself was not responsible for this budget: the Finance Minister to the interim government, Liaqat Ali Khan, was a member of the Muslim league. British expatriate business believed that this policy was designed to embarrass Congress, whose close connections to certain Indian big business groups was well known, *Capital*, 30 Apr. 1947.

[8] G. Tyson, *Centenary History of the Bengal Chamber of Commerce* (Calcutta, 1953), 273.

[9] T. Gladstone to A. Gladstone, 21 May 1948, MSS OG, file 2636. Previously these taxation rates only applied to firms with fewer than 25% of shares in public hands.

[10] Ibid.

group, led by Valalbhai Patel.[11] Firstly, Nehru and the left were seriously weakened when the Congress Socialist Party, led by Jaya Prakash Narayan, resigned from the party in protest at its perceived lack of radicalism.[12] Secondly, a number of economic difficulties in 1948–9, including the foreign exchange crisis of 1949, the loss of Pakistani markets as a result of the trade war, and the impact of the American recession on Indian export earnings, all encouraged the government to adopt a more conciliatory attitude to foreign and indigenous business.[13] The resolutions of the Industries Conference of April 1948 therefore generally favoured business and were far more circumspect about nationalization than the earlier statement of 1945.[14] They emphasized that India was to have a mixed economy in which private capital would have an important role and that full state ownership would be imposed only on specific sectors.[15] Existing private sector enterprises were given a ten-year guarantee against nationalization.[16] In 1949 Nehru attempted to reassure foreign investors, and particularly the multinationals: in a statement to the Constituent Assembly in April 1949, Nehru stated that foreign capital and expertise were essential to India's future development and should be encouraged. He also gave assurances that foreign investors would be able to take profits out of India in dollars and he also stated that the government did not have sufficient resources to pursue its policy of nationalization.[17] There was a similar retreat on the issue of majority Indian shareholdings in foreign enterprises; an official press note of September 1949 stated that:

[11] Patel, the powerful Gujerati Congress leader. Confidant of Gandhi and rival of Nehru, he was described by the FBI's commercial representative in India as, 'the strong man of India. He was the friend of Indian big-business, including the *Marwaris* and the *Banias*, whose unwholesome influence has been steadily permeating economic life here. These are the men who lavishly financed Congress in the dats of the *Raj* and who have, since independence, been exacting their reward', IBPA Collection, IOLR, MSS Eur. 158, file 98A.

[12] For details of the internal political struggles between the Congress left and right in the period 1947–51 see M. J. Akbar, *Nehru: The Making of India* (pbk edn., 1989), 453–64, and S. Gopal, *Jawaharlal Nehru: A Biography* (New Delhi, 1989), 211–15.

[13] M. Kidron, *Foreign Investment in India* (London, 1965), 74–103. On the internal political tensions within Congress in the late 1940s and early 1950s see B. R. Tomlinson, *The Economy of Modern India, 1860–1970* (Cambridge, 1993), 168–9.

[14] Kidron, *Foreign Investment*, 101.

[15] The railways, ordnance, and atomic energy; in six other sectors—coal, iron and steel, aircraft manufacture, shipbuilding, telephone and telegraph materials, and minerals, the government reserved the right to start new ventures. See also Kidron, *Foreign Investment*, 84–5.

[16] Nehru interview, reported in B. Elkins, Memorandum to N. R. Sarkar, 16 June 1949, MSS OG, file 2636.

[17] Reported ibid.

The Government of India categorically declared that permission to maintain a majority non-Indian interest in the ownership and effective control in some cases could not be considered *ipso facto* as detrimental to the interests of the country.[18]

Thus, between 1948 and 1952 prospects for foreign capital in India seemed much more promising and the managing agencies appeared to have earned a certain amount of government favour. In 1951, for example, the Ministry of Commerce and Industry adopted a sympathetic approach to old British firms, which, on becoming public companies for the first time, found themselves the object of hostile challenges on the stock exchange. The government took the view that attempts by Indian financiers to gain control of large blocks of managing agency house shares were purely speculative and passed an emergency ordinance to outlaw this activity.[19] *Capital* declared that, 'in the light of these developments we can say that foreign capital is now regarded with much less hostility and suspicion than was characteristic two years ago'.[20]

Of course, it should be borne in mind that the environment was now far more difficult for business in general than it had been before independence. The introduction of the First Five-Year Plan in 1951 permanently institutionalized the planning and production controls of wartime. The government now enjoyed extensive licensing controls over imports and exports and over the location of new industry;[21] an increasing amount of what had previously been normal business decision-making therefore now required approval by ministries and obtaining it was often slow and difficult. Moreover, under the 1951 Indian Industries Act, those industries which the government deemed to be of crucial national importance had to be licensed and no substantial new investment could be made in those areas without permission.[22] However, the managing agencies believed that they would not suffer unduly as they could use official contacts to help them to navigate the new planning processes.

[18] From official press note, 21 May 1949. Copy in letter from B. Elkins to A. Gladstone, 23 May 1949, MSS OG, file 2636.

[19] Minister of Finance, Shri Tyagi, 16 Aug. 1951, *The Proceedings of the Lok Sabha* (New Delhi, 1951), xiv. 710.

[20] *Capital*, 12 Nov. 1949.

[21] Full details of official powers over business decision-making, with case studies of their effects, are given in D. K. Fieldhouse, *Unilever Overseas* (London, 1978), 187–91.

[22] Ibid. 188–9. For a more general account of planning in the 1950s see Tomlinson, *The Economy of Modern India*, 173–90.

Yet, from 1952 this more tolerant economic climate began to change. By this time, the left of the Congress party was again in the ascendant: the right had been weakened by the death of Patel, and there were fewer constraints on Nehru's pursuit of closer relations with the Soviet Union and a more leftist economic policy.[23] This move to the left was given concrete shape in the debates over the formulation of the Second Five-Year Plan. At the end of 1954 Congress adopted as its goal a 'socialistic pattern' of society and economy.[24] In 1956 the government issued a major revision of its 1948 industrial policy resolution which, while ambiguous, seemed to promise greater state control over the economy.[25] The impression that state economic policy was becoming more radical had been growing throughout 1953–4, fuelled by the nationalization of the Imperial Bank and of the Indian insurance industry at the end of 1954.[26] Throughout 1955–6 the radicalization of policy continued with legislation allowing for compulsory purchase of property, a strong commitment to the state-led development of heavy industry, and even some suggestion of the future collectivization of agriculture.

It is not entirely clear what lay behind this resurgence of economic nationalism. Contemporary observers believed that it was partly the consequence of changing economic conditions. According to a report from a commercial representative of the Federation of British Industry on the political situation in India in 1952–3, T. T. Krishnamacharia (the Commerce Minister), was responding to 'a recrudescence of economic nationalism' among Indian businessmen which was the consequence of the economic depression.[27] Similarly, an article in

[23] Tomlinson, *The Economy of Modern India*, 169, 175. On increasing Soviet influence see Kidron, *Foreign Investment*, 113–19.

[24] The evolution of Congress's more radical economic policies after the 1952 general election are outlined by S. Gopal, *Jawaharlal Nehru: A Biography* (abridged edn., New Delhi, 1989), 267– 70.

[25] In a speech heralding the new industrial policy made in Apr. 1956 Nehru suggested that the new resolution would extend the range of industries reserved either exclusively to the state or for joint state-private sector collaboration. He also indicated that the state would assume a greater role in the trading sector. See IBPA Bulletin, 17 May 1956, IOLR, MSS Eur. 158, file 172 (Industrial Policy). A representative of the IBPA (a lobby for the older British firms) reported in late 1955, 'the left-wing in the *Lok Sabha* is setting the pace in economic policy, neither the finance minister (Deshmukh) nor the commerce minister (Krishnamarcharia) command any significant personal following so there is no effective counter-influence. This situation represents a serious weakness for the whole free-enterprise sector of the economy, especially foreign interests', G. Tyson and P. Griffiths, *Confidential Report on the Situation in India*, Jan. 1956, IOLR, MSS Eur. 158, file 98A.

[26] IBPA Bulletin, 17 May 1956.

[27] IOLR, MSS Eur. IPBA, file 81. See also Kidron, *Foreign Investment*, 111.

Pacific Affairs published in 1955 referred to the recent 'upsurge in commercial nationalism in India' which it attributed to economic difficulties following the end of the Korean War. At this time one MLA denounced foreign managing agency houses for 'driving out small Indian business'.[28]

However, there also seems to have been a political element in the adoption by Congress of a more aggressive policy towards older British firms. There is evidence that the government's previously favourable attitude to foreign business until 1951 had 'produced a nationalist backlash in parliament' and 'forced the government into a succession of limiting measures'.[29] The general election of 1952 returned a genuinely radical oposition to Congress for the first time and Congress politicians found themselves competing with rivals willing to exploit press support for economic nationalist policies. The communists, in particular, launched a campaign against all forms of foreign capital as inherently exploitative and neo-colonialist.[30] Congress politicians seem to have felt the need to respond to this anti-foreign economic nationalism in kind. Interestingly, however, Congress's brand of economic nationalism tended to focus more narrowly on the old British agency houses rather than on foreign capital more generally. Congress rhetoric drew a sharp distinction between the usefulness of modern multinational businesses in advanced manufacturing sectors and the ineffectiveness of the older foreign managing agency houses. In April 1954 a statement from the finance ministry stated that, 'It has been declared over and over again that foreign capital is desirable and welcome, provided it is of the right kind.'[31]

While this policy radicalization was not accompanied by any overt reversal of government's stated policy of welcoming foreign private investment in India, the period from 1952 did produce a recrudescence of economic nationalism in India and attitudes to foreign capital, particularly the old British managing agency houses, seemed to harden. Increasingly the old firms found themselves singled out for criticism by a broad spectrum of business and political opinion for their alleged unwillingness to associate themselves more closely with Indian business and their slowness to indianize their senior staff. One MLA, V. P. Nayar,

[28] S. Gupta (Congress MLA), quoted in IPBA Bulletin, 2 May 1954, IOLR, MSS Eur. 158, file 227 (Managing Agents).
[29] FBI, confidential memorandum, 2nd quarter 1953, IOLR, MSS Eur. 158, file 1167.
[30] Ibid. [31] Quoted in FBI report 2nd quarter 1954.

demanded action be taken against firms that failed to indianize their directorships:

After partition especially there has been a tendency on the part of the managing agency houses in India to try and create an impression that they are associating themselves more and more with Indians in their business undertakings. They have never associated themselves with Indians who are at the topmost in the industrial field in India, but are associated with what are general called 'guinea pig' directors.[32]

In 1952 the government, now sensitive to criticism from the left, launched a major inquiry into the pace and pattern of indianization of the foreign private sector,[33] and in early 1953 the Minister of Commerce and Industry, T. T. Krishnamarcharia, expressed the hope that 'some 10,000 Indians will be given employment [by foreign firms] in the higher salary groups within the next five years'.[34] With this in mind the government established a permanent office of investigation into the issue under the Ministry of Commerce and Industry in 1953 with powers to demand information on staffing policy in foreign firms operating in India. Thereafter the government introduced an annual census of senior postholders in commercial firms and established schemes to train Indian executives abroad. Firms had to justify all non-Indian appointments to senior positions in order to secure the necessary official approval.[35] After 1954 the denial of import and export licences and lengthy delays in official approval of foreign staff appointments became common problems for firms which were considered to be slow in indianizing their staffs. The FBI's officer in India reported in March 1954:

Perhaps in the absence of legal powers the minister [of commerce and industry] has quite a lot of power to compel delinquents to obey and he uses such influence as he has in order to make them fall into line. In recent months a number of foreign firms who were considered out of line have become acutely aware of this influence. A number of British firms have been obliged to give informal assurances that they will not ordinarily recruit British staff in junior posts.[36]

[32] V. P. Nayar, 29 Apr. 1954, *Proceedings of the Lok Sabha*, 4 (1954), 6094.
[33] FBI, confidential memorandum, 1 Dec. 1952, IOLR, MSS Eur. 158, file 1167 (FBI Reports).
[34] Quoted in IPBA Bulletin, Mar. 1953, IOLR, MSS Eur. 158, file 1167.
[35] Ibid.
[36] FBI, Indian quarterly reports, IOLR, MSS Eur. 158, file 1167A, Mar. 1954.

One such firm was Kilburn, Brown and Co., whose newly appointed British managing director waited for over one year for the necessary official approvals by the Indian government in 1953.[37]

Yet it was not just the managing agents' attitudes to race and indianization which left them open to criticism. The old firms were also severely attacked for their allegedly hierarchical internal structures. Thus, a number of Congress politicians identified the older agency houses as enemies of the new egalitarianism of modern India because of their preservation of traditional social hierarchies within their firms. During the 1954 parliamentary debates on the new Companies bill, T. T. Krishnamarcharia denounced the 'privilege and hierarchy implicit in the system' and called for the introduction of career structures based on merit in such firms.[38] In 1959 the Shastri Committee, currently investigating the managing agency system, called for the agencies to be abolished on broad 'social as well as economic grounds'.[39] Similarly, Dr I. G. Patel, Congress's chief economic adviser criticized the firms for, 'hindering the vertical mobility among those with talent and obstructing the growth of a professional managerial class'.[40] Thus, it was the hierarchical structures of the old agency houses rather than simply their foreignness that Congress identified as 'imperial practices'.[41]

Indian critics also became concerned about the perceived dominance of the older British firms in the commercial and financial sectors of the economy. One observer noted that 'the tide of economic nationalism is advancing stealthily. A careful watch is being maintained on the proportion of business—import, export, exchange, shipping, banking and insurance—transacted respectively by Indian and non-Indian houses.'[42] Ministers made unofficial statements calling for all Indian firms to insure themselves and do their banking business with other Indian firms. Thus the Commerce and Industry Minister, T. T. Krishnamarcharia, told the Associated Chambers of Commerce and Industry (still a predominantly European organization) that,

[37] Note by A. L. B. Tucker, Inchcape Collection, MS 27,782, 2 July 1953.

[38] T. T. Krishnamarcharia, Lok Sabha debate, 2 May 1954, quoted in IPBA Bulletin, IOLR, MSS Eur. 158, file 227.

[39] Quoted in IBPA Bulletin, 10 May 1966, IOLR, MSS Eur. 158, file 227.

[40] Dr I. G. Patel, *Report of the Government Committee of Enquiry into Managing Agents, 1965*, quoted in Bengal Chamber of Commerce Circular, 10 May 1966, IOLR, MSS Eur. 158, file 227.

[41] W. F. Rivers, 'Foreign Investment in India', *Pacific Affairs* (Mar. 1955), cited in IOLR, MSS Eur. IPBA, file 87.

[42] FBI, Indian quarterly reports.

the government would like to see the contraction rather expansion of non-Indian concerns engaged in trading pure and simple. It is only fair to suggest that every big non-Indian concern should make it a point to see that at least 50% of its insurance business and a large percentage of shipping business should go to Indian concerns.[43]

This trend was noted by the representative of the India-Burma-Pakistan Association, a lobby for British firms in South Asia, who wrote a confidential memorandum warning that:

The unwillingness to encourage the extension of foreign interests in the purely trading and distributing [sectors] is now firmly established and a definite article of policy. The desire to secure for Indian banks, insurance and shipping an increasing share of foreign controlled business is strong and pressure to this end is coming from both official and non-official sources.[44]

The changed climate of opinion towards the old managing agency houses is clearly illustrated by the history of the inquiry into the reform of company law in independent India. In 1949 a specialist committee of inquiry headed by the eminent Indian scientist, Homi Bhaba, was set up to look into Indian company law with a view to bringing it into line with recent reforms in English company law. In late 1952 the committee finally published its findings. These were relatively moderate, recommending cetain limitations on the powers of managing agencies, but also endorsing them as ‘generally useful’. The report was immediately denounced by a broad spectrum of Indian political opinion and the report was sent directly for revision by parliamentary select committee. This body published much more radical recommendations in mid-1954.[45] The FBI representative in India commented that the critics of the report ‘have as their avowed purpose the progressive elimination of the managing agencies’.[46] These amendments included strict limitations on managing agency remuneration, a limit on the numbers of companies any one agency house could manage, and a ban on inter-company loans between companies within the same managing agency group.

[43] T. T. Krishnamarcharia to the ASSOCHAM, quoted in the FBI report, 4th quarter 1952.

[44] Confidential memorandum, Jan. 1955, IOLR, MSS Eur. 158, file 98A.

[45] For details see S. K. Basu, *The Managing Agency System In Prospect and Retrospect* (Calcutta, 1958), 11; for other critical studies of the British agency houses published at this time see M. M. Mehta, *The Structure of Indian Industries* (2nd edn., Bombay, 1961), and R. K. Hazari, *The Structure of the Corporate Private Sector* (Bombay, 1963).

[46] Confidential FBI memorandum, ‘Indian Economic Conditions’, Jan. 1955, IOLR, MSS Eur. 158, file 98A.

The parliamentary debates on this report showed that feeling now ran very high against the old British firms and positions were polarized between those who wanted them abolished altogether and those prepared to give them a few years grace.

The new Indian Companies Act finally promulgated in 1956, while not actually abolishing the agency system, severely limited the agencies' activities and sought to undermine their traditionally secretive business culture. Under the terms of this legislation private companies were compelled to disclose their financial position more fully; the duration of managing agency agreements was reduced to fewer than ten years; statutory limits were placed on managing agency remuneration, and a maximum figure of 10 per cent of the profits of the managed company was set. This was much lower than the 16.8 per cent of tea companies' profits and 52.6 per cent of jute companies' profits which the agencies tended to receive.[47] Significantly, in a move designed finally to break the perceived exclusivity of British agency houses' business circles, restrictions were placed on the system of interlocking directorships and no individual was permitted to be a director of more than twenty companies. Periods of economic nationalist feeling continued to characterize Indian politics and during one of these in 1968 it was declared that the agency system would be abolished; the date was subsequently extended to 1970. It was clear from the nature of this legislation that the target was not foreign business as a whole, but the old British managing agency houses and the socially exclusive business culture which they embodied.

The Managing Agents' Response to Independence

It is difficult, given the nature of the available evidence, to calculate the degree and pace of British managing agency disinvestment after independence, but it seems that it was gradual and limited. Many managing agencies sold only part of their interests, while maintaining sufficient shares to keep control. According to figures from the Indian Ministry of Finance, for example, between August 1947 and September 1952 only sixty-six foreign firms were sold in their entirety to Indian interests for under Rs 15 crores in total.[48] The limited nature of disinvestment was confirmed by a contributor to *Capital*, who wrote:

[47] S. Jones, *Merchants of the Raj* (Basingstoke, 1992), 410.
[48] B. R. Bhagat, Parliamentary Secretary to the Minister of Finance, Lok Sabha, reported in *Hindu*, 9 Nov. 1952.

Outright purchase [by Indians], however, was limited. It was confined mainly to newspapers, departmental stores, a few of the smaller managing agencies, certain coal mines and jute and cotton textile mills.[49]

The reasons for disinvestment tended to vary from firm to firm. Some senior British businessmen sold their interests because they were unwilling, under any circumstances, to do business under an independent Indian regime, while others feared that they would be the victims of discrimination. A few continued to have a wholly unrealistic view of the implications of independence for them. So, for example, officials despaired of one senior businessman connected with Bird, Thomas Chapman-Mortimer, who believed that the India Office should amend the Transfer of Property Act so as to prohibit any Indian from buying shares in British managing agency houses:

He seemed quite unconscious that any attempt to stem the activities of the Birlas, Tatas, etc . . . would be in the nature of King Canute's performance . . . I suspect it is his inability to adapt himself to changing circumstances which has led to his resignation from Bird's and his departure from India.[50]

Other managing agents, however, were more worried by changes in taxation law which discriminated against those firms which refused to convert themselves from sterling companies with headquarters in Britain to rupee-based public companies, incorporated in India;[51] this would have involved a loss of autonomy which they were not prepared to tolerate. Those agency houses which wished to disinvest immediately after the war found it particularly easy to do so because there were many Indian buyers who had made speculative profits during the war and who wished to buy shares in established companies. Hence, they were able to secure a significant return on their shares; for instance, the small house of Thomas Duff and Co., which managed three jute mills and a light engineering works, sold its shareholdings in July 1948 to Girdharilal Mehta for £700,000.[52]

[49] An Indian Contributor, 'Redistribution of British Capital', *Capital*, 22 Dec. 1949.

[50] T. Chapman-Mortimer to India Office, Commerce Dept., 12 May 1946. IOLR, L/E/9/207.

[51] For the taxation of private firms, see G. Harrison, *Bird and Company of Calcutta* (privately printed, 1964), 203; O. Jenkins, *Merchant Prince* (London, 1988), 167; R. N. Sen, *In Clive Street* (Calcutta, 1981), 32 f.; B. Elkins to A. Gladstone, 24 July 1948, MSS OG, file 2634.

[52] Deed of Sale between the partners of Thomas Duff and Co. and G. Mehta, MSS A. & S. Henry, 86/v/12/3, 14 July 1948. See also the article, 'Future For British Business In India', *Indian Affairs*, 6: 13 (July 1947).

Some of those managing agency houses which remained in India after 1947 may have done so without enthusiasm, constrained by the complexities of Indian tax law which made it difficult for British partners to secure their capital interest and repatriate it unless they found a wealthy buyer to purchase their shareholdings. Indian enthusiasm for buying British business assets was sporadic, and those agency house partners who missed the opportunity to disinvest before the onset of the post-war slump and foreign exchange crisis had to wait until Indian business recovered again in the early 1950s. However, many businessmen were determined to remain, often because they maintained a rather complacent view of their prospects. So, for instance, Basil Elkins, of Gillanders, Arbuthnot and Co., was relatively unconcerned by commercial discrimination, believing that it would never be a major threat because India was still dependent on the expertise of the agencies. According to Elkins, the managing agencies were 'still welcome in a country that has as yet to breed sufficient men of integrity and capacity to do justice to the potentialities of the land'.[53] Edward Benthall, on the other hand, took the view that the managing agency houses would be safe because they were less of a threat to Indian business than the multinational corporations. Indian businessmen, he remarked, 'have taken the measure of old established firms and know how to handle us'.[54]

Those firms which stayed were forced to make some changes to the way they did business. Most significantly, they became much more reliant on Indian capital than they had been before independence. They needed to attract capital in order to fend off challenges to their control over their managed firms, and they were prepared to bring a few trusted Indians into the managing agencies in order to prevent the greater evil of loss of control to Indians they did not know. Co-operation with Indian capital also had the political purpose of ensuring that the agencies appeared less 'imperial'. The incorporation of Indian capital into British firms was eased by the transformation of most of the managing agencies from private partnerships to public companies, a development which had been forced by changes in Indian corporate taxation laws. From the mid- to late 1940s, therefore, wealthy and influential Indians became, for the first time, partners in the managing

[53] B. Elkins to A. Gladstone, 4 May 1945, MSS OG, file 2634.

[54] Benthall's speech to the Imperial Defence League, 11 Sept. 1947, MSS Benthall, Box 8.

agencies themselves. The period thus saw the forging of a number of alliances between Indian businessmen and the partners of the old British managing agency houses: in 1948, for instance, McLeod and Co. merged with Begg Dunlop and Anderson Wright and Co., and the entire group became financially dependent on the Marwari businessman Chotteylall Kanoria.[55] Similarly, Kumarajah Sir Muttiah Chettiar bought a large holding in A. & F. Harvey, and Tata established a significant presence in Forbes, Forbes, Campbell.[56]

The introduction of Indians as partners into the agency houses themselves was not the only sign of the movement towards greater business integration in this period. Indianization of the boards of the managed companies also accelerated during the 1940s. One survey of managed companies shows that between 1940 and 1955 the percentage of Indian directors of tea companies rose from 5.92 per cent to 32.49 per cent, while in the coal industry the figure rose from 33.33 per cent to 57.75 per cent.[57] *Capital*, still British-owned at this time and keen to publicize these developments, concluded in late 1946 that the participation of Indian and British directors in each other's companies 'demonstrates how Indians and Europeans can jointly labour for industrial advancement . . . and for mutual benefit'.[58] This process of indianization also affected the employees of the firms. Bird in 1938 had 58 British covenanted staff, 40 Anglo-Indian, and 15 Indian, and by 1948 the figures were 65, 62, and 43.[59]

These changes seem, in large part, to have been motivated by political considerations and the British partners were anxious, for this very reason, that they should not be seen as merely superficial. So, for instance, when the Maharajah of Burdwan became a director of the newly established Gillanders Ltd. in 1947, Albert Gladstone was delighted with his appointment because he would be 'a real asset on the political side' and could not be dismissed as mere 'window dressing'.[60] The managing agencies made great efforts to establish good relations with Congress politicians and had some success. Paradoxically, as has been seen earlier, they found it easier to forge personal

[55] A. G. Elkins to A. C. Gladstone, 1 Oct. 1948, MSS OG, file 2636.
[56] Ibid.; see also Mehta, *The Structure of Indian Industries*, 318.
[57] Basu, *The Managing Agency System*, table I, 212. The percentage of Indian directors in the jute industry, however, fell from 72.04% to 47.96%.
[58] *Capital*, 15 Dec. 1946.
[59] 'Note', by G. Morton, 12 May 1948, MSS Benthall, Box 7.
[60] B. Elkins to A. Gladstone, 23 May 1948, MSS OG, file 2636.

relations with a few trusted Indian politicians than they did with British officials, who had often demanded a more transparent and formal relationship.[61]

British firms had always enjoyed good contacts with Indians in the lower branches of the civil service and these relationships had sometimes involved corruption. Gillanders, for example, was severely embarrassed when a book of 'commissions' came to light in the records of the construction company Mackintosh Burn, which they managed.[62] At a higher level, the relationship between British companies and Indian politicians and officials had been improving since the election of Indian ministries to the provincial governments in 1937. In Bengal, the European group in the legislature sustained the Muslim Krishak Praja party in power;[63] in the Punjab Andrew Yule and Co. was on particularly good terms with the Unionist government. Thus, when the firm experienced difficulties in obtaining oil prospecting licences, they were able to use their friendship with Zaffrulah Khan, the Legal Member of the Punjab government, to expedite permits and in 1939 a similar problem arose and was solved by the intervention of Akbar Hydari of the Labour department.[64] These relationships were not confined to non-Congress ministries: in Bombay, on the day of the announcement of the date of independence by Mountbatten, a number of Yule's contacts in Congress came to the firm and entreated them not to disinvest because Congress would not be able to manage the economy on its own.[65]

During the war, government service brought British firms into closer contact with a new generation of Indian higher officials who were to be influential after independence. This development was commented on by *Capital* in July 1946, which claimed that the role British businessmen had played in the wartime ministries had contributed to the 'general stock of goodwill which British business enjoys' in India.[66] Another contemporary observer commented,

> in such circumstances [it was easy] to continue and extend the existing processes of consultation . . . the machinery was there ready at hand, for the war had built up a network of advisory and other bodies through which the

[61] See Chapter 7.
[62] T. Gladstone to A. Gladstone, 21 Mar. 1947, MSS OG, file 2635.
[63] A. McKerrow to E. Benthall, 31 July 1937, MSS Benthall, Box 12.
[64] Interview by M. Misra with J. Freeman of Yule and Co. (May 1989). J. Freeman noted that Zafrullah Khan's son had been, at that time, an assistant at Yule.
[65] Ibid. [66] *Capital*, 23 July 1946.

government maintained regular touch with the changing conditions of trade and industry.[67]

After independence British firms were to some extent successful in using their official contacts to ease them through the complexities of the control regime. Gillanders was particularly renowned for its excellent connections with the central government which had been developed by Basil Elkins, the senior Calcutta partner, during his period of service in the wartime ministry and afterwards in his capacity as president of the Associated Chambers of Commerce. These connections were sometimes put at the disposal of other British firms: in 1946, for example, the agency house Jardine Henderson and Co. asked Gillanders to employ one of their assistants in Gillanders's Delhi branch so that he could 'improve' its liaison with the central government.[68] Gillanders had particularly good contacts with officials in the import licensing department who assisted with the firm's applications for raw materials import permits.[69] It also had friends in the supplies department: in 1947 the Waldies paint company which Gillanders managed was short of red lead, which only the Delhi government could supply. Elkins used his contact with Venkataraman, a senior official in the department, to secure the release of over 400 tons. Later, Venkataraman suggested that Gillanders manage a government controlled scheme to regulate the distribution of yellow sheet-metal.[70]

The good relations between British businessmen and some officials in the central government were further reflected in the promotion of British men to represent India's interests at international trade conferences. So, for instance, in the late 1950s Alexander Walker, the managing director of Jardine Henderson, became the full-time president of the now largely Indian Jute Mills Association; Walker went on to represent the government of India in trade talks with the United States.[71] Similarly, in 1956 Sir John Burns, of James Finlay, accompanied Sir Kasturbhai Lalbhai, as one of India's representatives to the negotiations on the textile trade, which had been sponsored by the Commonwealth conference.[72] Relations between the managing agents

[67] Tyson, *The Bengal Chamber*, 169.
[68] A. Gladstone to B. Elkins, 19 Dec. 1946, MSS OG, file 2635.
[69] B. Elkins to A. Gladstone, 12 May 1948, MSS OG, file 2637.
[70] B. Elkins to A. Gladstone, 25 May 1946, MSS OG, file 2634, and 10 Jan. 1947, file 2636. B. Elkins to A. Gladstone, 24 June 1949, MSS OG, file 2636.
[71] A. P. Walker, reminiscences, IOLR, MSS Eur. T. 97.
[72] J. C. Burns, interview, IOLR, MSS Eur. R. 168.

and the government seemed to be so good that the FBI's representative in India went so far as to claim in 1955 that:

> British business leaders continue to have the closest relations with ministers and officials of central government, where they enjoy a status which is probably unique for a foreign trading community.[73]

There is also some evidence of closer relations developing between Indian and British business organizations and associations, particularly in the years immediately after independence when it was in the interests of business to unite against a government which was introducing measures which were perceived to be hostile to business in general. As Basil Elkins told the Annual General Meeting of the Bengal Chamber in December 1949:

> Prior to World War II the industrialist and the trader had a great number of adversaries—his competitors. Those days are gone and now former rivals are banding themselves together somewhat forlornly and without their pristine aggressiveness, to defend their common interests against a new and more ponderous opponent.[74]

As a result of these new circumstances, therefore, there was clearly more co-operation between Indian and British business organizations than had been the case before the Second World War. Thus, in 1948, when the Indian organization, the Federation of Indian Chambers of Commerce and Industry (FICCI), established a committee to formulate business opposition to the government's profit-sharing scheme, British representatives were invited to join it.[75]

However, there were limits to these alliances, and most importantly the national business organizations, FICCI and ASSOCHAM, retained their distinctive Indian and British identities well into the 1960s.[76] The Committee of the Bengal Chamber of Commerce had only acquired a single Indian member as late as 1959.[77] Moreover, closer relations with individual Indian businessmen and politicians did

[73] FBI, confidential report, Jan. 1955.

[74] Presidential Speech by B. Elkins, reproduced in The Bengal Chamber of Commerce, *Annual Report and Correspondence,* (Calcutta, 1950), i, pp. i–xii.

[75] Reported by B. Elkins to A. Gladstone, 20 May 1948, MSS OG, file 2636.

[76] The Bengal Chamber became slowly integrated throughout the 1950s as many of its member firms were taken over by Indian businessmen. See membership lists, Tyson, *The Bengal Chamber of Commerce*, appendix II, 276–83.

[77] IBPA memorandum, Jan. 1959, IOLR, MSS Eur. 158, file 1120 (Bengal Chamber of Commerce).

not defuse nationalist criticism of the behaviour of the remaining managing agency houses.

It is impossible to know whether the managing agency system would have been abolished by the government regardless of the actions of the firms themselves; there was clearly a widespread belief within Congress that senior businessmen within these firms had not entered into the spirit of independent India and were trying to preserve a socially élitist business culture, while the managing agency system as a whole was damaging the Indian economy. However, legislation to abolish the system was not immediate and was only introduced in the late 1950s, ten years after independence. Had the agency houses therefore wished to conciliate their critics they had the time to do so, but it appears that they were not prepared to make the concessions that were necessary. This was particularly the case with the indianization of boards of directors; while, obviously, the former British partners wished to keep as much control as possible, they might, in consideration of prevailing political opinion, have been expected to indianize boards of directors more fully and rapidly. V. P. Nayar's use of the term 'guinea pig' directors may not have been justified, but it is true that the British seem to have felt comfortable collaborating with relatively few Indians and for this reason certain Indian names occur again and again in the lists of directors. Also, while an increasing number of Indian directors were appointed to the managing agencies themselves, until 1956 they were generally far outnumbered by Europeans, and even after that time the agencies usually had more European than Indian directors.[78] Thus only one of Bird Heilgers's seven directors was Indian as late as 1956.[79]

It is clear, therefore, that the principal aim of British partners, when transforming the agencies into public companies, was to retain as much control and autonomy for themselves as possible. Rowan Hodge, the leading corporate lawyer to the expatriate community in Calcutta and the adviser of many British firms on their indianization policy, advocated schemes which would allow the original British partners to maintain a controlling block of the voting shares in all the newly created companies, thus securing autonomy from other shareholders and half the profits. This would be done in one of two ways, either by an offer of cheaply denominated shares to the general public which would ensure, it was hoped, a large body of small and diffuse shareholdings, or by

[78] For a survey of 10 managing agencies, see Table 4.
[79] Basu, *The Managing Agency System*, 210.

selling substantial shareholdings to a carefully selected group of wealthy individuals, who would be willing to act purely as ‘sleeping partners’, holding their shares only as an investment.[80] The senior partner of Macneill Barry summed up the essential nature of the conversion process:

> we felt that we would have to have more Indian participation and with that in view we changed to a limited company and invited Indian capital . . . there was not a great deal of adjustment.[81]

High levels of British control were also maintained over the managed companies and this gave rise to persistent complaints that companies were being run undemocratically. So, while the numbers of Indian directors of managed companies did increase after independence, particularly in the coal industry, many of these new Indian directors were trusted allies of the agencies and were imposed on the shareholders. The government tried to prevent these practices by undermining the system of interlocking directorships that underpinned this exclusivity. As has been seen, in 1956 individuals were prohibited from holding more than twenty directorships at any one time. However, by this time the managing agencies’ control over their managed companies was primarily secured by their shareholdings, which they had increased, using a significant amount of their capital. So, for instance, Bird and Yule owned between 43 per cent and 70 per cent of the equity in a number of investment companies which in turn had a significant shareholding (between 35 per cent and 45 per cent) in the managed companies, far larger shareholdings than had been common before the Second World War.[82] The agencies’ continuing control over their managed companies ensured that they were able to continue to demand higher fees for their management than the government considered acceptable and even the 1956 Act was unable to limit the remuneration of the managing agencies to 10 per cent, as was discovered in a survey of the agencies published in 1960.[83] Government investigators also believed that the managed companies were secretly giving the agencies commissions on the sale and purchase of goods and services, a practice which had been prohibited by the 1956 Companies Act.

[80] Note by Orr Dignam (Solicitors) to the partners of Thomas Duff and Co., 12 Apr. 1947., A. & S. Henry Collection, MSS Duff, file 86/v/7/38.
[81] H. C. Bannerman, interview, IOLR, MSS Eur. T. 80.
[82] Hazari, *The Structure of the Corporate Private Sector*, 116–25.
[83] Jones, *Merchants of the Raj*, 409; Mehta, *The Structure of Indian Industries*, appendix C.

While it might be expected that the managing agencies would be unhappy about reducing their control over managed companies, their generally hostile attitude towards the indianization of their staff seems less readily explicable. The pace of indianization continued to be slow in the older firms and between 1947–52 the number of British senior staff earning over Rs 1,000 actually increased from 5,800 to 7,100, while in the same period the number of Indians employed at this level rose from 500 to only 2,200.[84] By 1958 sectors of the economy dominated by the managing agency firms, such as plantations, jute mills, banking, and transport, still employed a disproportionately large number of Europeans at a senior level, generally well over 50 per cent. Moreover, over half of all the senior posts in the managing agencies were still European. By contrast, those sectors of the economy where other forms of foreign investment were dominant tended to have a higher proportion of Indian senior staff. Thus, by 1958 automobile dealers and manufacturers, sugar and breweries, machinery, equipment, and tools all employed Indians in more than 50 per cent of their senior posts.[85]

Indianization of the lower echelons of the executive staff, technicians, and of higher clerks would not have been a great threat to control, and would have allowed savings in expenditure on salaries. More importantly, it would have conciliated nationalist political opinion. As one partner remembered, 'very considerable pressure was brought to bear by the Government of India in the early 1950s to speed up indianisation', but there was a continued reluctance to give Indians positions in the higher levels of these companies.[86] Binny and Co., for instance, was criticized as late as 1965 by the government for its continuing use of British technical experts, despite their expense, and for its failure to appoint Indians to positions of responsibility. The managing director of Binny accepted that there was a need to 'give a more Indian character' to the company for political reasons, but he still considered that '. . . it is an advantage to be an all-British company in terms of the fair-dealing and control that that brings'. He realized that it was necessary to appoint an Indian chairman, but he insisted that he should be merely

[84] See Fig. 3.

[85] See the Report of the Adviser to the Central Commercial Committee (GOI), *Increase in Employment of Indians in Superior Scales in Foreign Controlled Companies* (returns for 1958), in IOLR, MSS Eur. 158, file 178 (Indianisation). In 1968 foreign firms employed 1027 Europeans on salaries of over Rs 5,000 p. m. compared with 603 Indians, IPBA Bulletin, 8 Feb. 1970, IOLR, MSS Eur. 158, file 178.

[86] D. Adams (executive in Yule and Co.), quoted in Jones, *Merchants of the Raj*, 143.

a figurehead rather than a real executive chairman. Yet even this measure was thought likely to have a negative impact on the company, causing the expatriate staff to feel 'isolated and demoralised'.[87] Other businessmen considered that indianization would reduce the prestige and influence of the companies. As one contemporary businessman noted:

> The composition of the British commercial community will change as indianisation proceeds and as the proportion of technicians will rise and the proportion of general commercial assistants declines . . . with a consequent diminution in the number of men who really understand or have a 'feel' for business . . . factors which must ultimately affect the standing of the British commercial community and its importance in the civic and political life of the country.[88]

Given these attitudes, it is not surprising that companies made great efforts to continue to recruit Europeans throughout the 1950s and 1960s, despite the increasing difficulties of finding suitable people who were willing to embark on a career in India.[89] In 1956 Percival Griffiths and Geoffrey Tyson reported to the Indian–Burma–Pakistan Association that, in their opinion, the single greatest problem facing British commercial interests in India was to 'attract and retain [British] staff of the appropriate calibre'.[90]

The rigid racial and social rules which informed life in many of the managing agencies were also slow to change. There was some relaxation of the segregation within firms, but traditional practices still remained in some of the more conservative houses, such as Bird.[91] One Anglo-Indian assistant in Bird in the late 1950s, Pram Prashad, remembered that there were different lunches for various categories of staff: the Anglo-Indians ate at 12.30 p.m., the 'promoted' Indians at 1.00 p.m. and the British at 1.30 p.m. He decided that his relatively senior position entitled him to ignore these rules and attend the British lunch, but this was met with complaints. It was only when he said he would rather starve than join the Anglo-Indians that he won the battle.[92]

[87] Inchcape Collection, MSS Binny, file 27,164, 25 May 1965.

[88] FBI, confidential report, Jan. 1955.

[89] For instance, W. C. Christie urged that 'we must continue European recruitment', in W. C. Christie, 'The Pace of Indianization', *Capital*, 17 Dec. 1953.

[90] P. Griffiths and G. Tyson, 'A Report on Indian Conditions', Jan. 1956, IOLR, MSS Eur. 158, file 98A.

[91] R. N. Sen remembered that some of the old British agency houses were more liberal in their approach to racial integration among their senior staff than others, Sen, *In Clive Street*, 67.

[92] P. Prasad quoted in Jones, *Merchants of the Raj*, 181.

Likewise, social life outside the firm changed only gradually. Many clubs remained exclusively British until the late 1950s, even though it had by then become common for British businessmen to entertain Indians in their own homes; as Prakash Tandon noted, 'it was a case of the club rather than his home being the Englishman's castle'.[93] The Calcutta Swimming Club, for example, did not allow Indian members until the early 1960s.[94] Even when clubs did become mixed, the managing agency partners and assistants who held senior positions in some of the more prestigious ones were keen to maintain their social exclusivity, and social status increasingly became a more important criterion than race when decisions were made on the admission of new members. The managing agents were particularly unwilling to admit the employees of multinationals. As Arabinda Ray, an employee of a multinational before working for a managing agency, explained:

> The managing agency houses were socially superior to the industrial companies. When I was a trainee with Metal Box, I tried to join the Racket Club but they said I would have to go through a screening committee as I didn't work for one of the managing agency houses.[95]

Colin Campbell, the managing director of James Finlay and Co., even implied that Indians were only admitted as members because there were too few employees of managing agencies and élite Indians were preferable to employees of multinationals, whatever their nationality:

> By the 1960s the British left in even greater numbers than before. The character of the clubs changed. I was on the committee of the Tollygunge [Club] and at the time I left the availability of pleasant people to become members was far greater among the Indian community than it was among the expatriate community.[96]

The managing agencies were therefore still vulnerable to nationalist criticisms of their recruitment and their racial attitudes more generally. Indian opinion noticed this reluctance on the part of traditional firms and began the campaign of pressure noted above. The *Eastern Economist* of 1952 commented:

> Official enquiries into the employment of Indians by foreign firms cannot come too soon. There have been disquieting reports in recent months of a gradual

93 P. Tandon, *Beyond Punjab* (New Delhi, 1969), 28.
94 W. Diamond, interview, IOLR, MSS Eur. T. 93.
95 A. Ray, quoted in Jones, *Merchants of the Raj*, 180.
96 Sir Colin Campbell, quoted in Jones, *Merchants of the Raj*, 261.

reversal of the policy of indianisation of higher executive posts which foreign businessmen once seemed eager to carry out—naturally anxious as they were in 1947 to rehabilitate themselves. But the goodwill of government has not been repaid, it is interpreted as the green light to resume their traditional policy of keeping higher posts open to their own nationals. If they have dissipated the goodwill which was too readily forthcoming, they are themselves to blame.[97]

The continuing social conservatism of the managing agency firms was combined with their traditional investment strategy and their continued interest in sectors such as jute, tea, and coal. This laid them open to the argument that India did not need the managing agencies because industries with low levels of technology could be run just as well by Indian companies.[98] There was some diversification into new areas by a few companies, but they were generally less innovative than Indian firms.[99] On the whole they remained in their traditional sectors and with some exceptions, such as in the coal industry, did not invest as much capital in new technology as their Indian rivals.[100] The largest firms, such as Bird and Yule, remained largely committed to jute.[101] This was, of course, in part the consequence of the new taxation regime which left them fewer resources for new investment, but they were also in many ways merely continuing to pursue their traditional strategy.

Multinational Enterprise in Independent India

While it is clear that to some extent the managing agencies were the victims of a general attack on foreign capital by certain Indian political groups in the 1950s, these firms were the focus of much more hostility than were the other major form of foreign enterprise in India, the multinational companies. It is doubtless true that the multinationals, with their advanced technology and expert staff, appeared to the independent government to be more useful for Indian development than the less successful agency houses. However, another plausible explanation for the distinction made between multinationals and agency houses is that the multinationals appear to have been far less committed to the

[97] *Eastern Economist*, 22 Aug. 1952.

[98] See, for example, an article criticizing British agency houses for continuing to employ European technicians, *Eastern Economist*, 27 Feb. 1954.

[99] See Kidron, *Foreign Investment*, 60, Hazari, *The Structure of the Corporate Private Sector*, 22.

[100] Kidron, *Foreign Investment*, 59 f.

[101] Hazari, *The Structure of the Corporate Private Sector*, 124.

racial and social exclusivity of colonial society than the managing agents, and were thus better able to adapt to the conditions of an independent India.

After independence direct investment in manufacturing plants in India by multinationals was the most common form of British investment. Firms such as ICI, Dunlop, Lever Brothers, British Leyland, and GEC all became significant investors. Many of these companies entered the Indian market in partnership with Indian companies to establish joint ventures with Indian private sector manufacturers, for example, British Leyland in the Ashok-Leyland Truck plant.[102] They were concentrated in the more technologically advanced sectors of the economy and flourished from the end of the 1950s, precisely the time when the managing agencies were experiencing their greatest difficulties.[103]

From their first appearance in India in the 1920s the new multinationals appear to have operated differently from the agency houses. While technical supervision and guidance was provided by the foreign company, there was often joint shareholding by Indian and foreign partners and these companies provided training for Indian technical personnel who would eventually replace Europeans.[104] It was, therefore, possible to present the multinationals as both more 'Indian' and more technically useful to the Indian economy than the managing agencies. Only anecdotal evidence is available about the treatment of Indian staff within multinational enterprises, but this does suggest that there were qualitative differences between their approach and that of the managing agency houses.[105] Also as early as 1931 it was clear that the approach of multinationals to labour in India would be very different from that of the old managing agency firms. In evidence to the 1931 Royal Commission on Labour in India the representatives of Burmah-Shell adopted a far more optimistic approach to the potential

[102] B. R. Tomlinson, 'Continuities and Discontinuities in Indo-British Economic Relations: British Multinational Corporations in India, 1920–1970', in W. J. Mommsen and J. Osterhammal (eds.), *Imperialism and After* (London, 1985); B.R. Tomlinson, 'Foreign Private Investment in India, 1920–1950', *MAS* 12: 4 (1978), 655–77.

[103] Between 1948 and 1955, 248 collaboration agreements involving multinationals were approved by the government. After 1956 there was a marked acceleration in business ventures of this kind and nearly 800 were approved between 1956 and 1960. Much of this multinational investment was in the manufacture of transport equipment, machinery and machine tools, electrical goods, and chemicals. See P. Patnaik, 'Imperialism and the Growth of Indian Capitalism', in R. Owen and B. Sutcliffe (eds.), *Studies in the Theory of Imperialism* (London, 1972), 218.

[104] 'The Redistribution of Foreign Capital', by an Indian Contributor, *Capital*, 22 Dec. 1949.

[105] See Chapter 4.

of the Indian workforce than did their agency house counterparts. While the managing agency firms denied that productivity could be raised in India and that worker education was inappropriate, Burmah-Shell's representatives argued that there was no inherent difference in the capabilities of European and Indian workers, 'we believe that in order to improve industrial efficiency we need to educate the worker . . . through the formation of state controlled schools for vocational training'.[106] The attitude of multinationals to Indians in managerial positions also differed from that of the managing agency firms. Before independence, the multinationals had developed 'up-country' dealership organizations staffed by Indians and indianization in companies such as Burmah-Shell had begun in the early 1930s, whereas practically none of the managing agency houses had indianized at that time.[107] Similarly the multinationals accepted the need to employ large numbers of Indians on equal terms with Europeans at senior levels from 1942, when the agency houses were still committed to as much recruitment from Britain as possible and the introduction of a different grade and salary scale for Indian covenanted assistants.[108] At Unilever, for example, the loss of so many of their British men to military service led to an important change of policy in 1942. It was formally accepted as a matter of principle that as many Indians as necessary should be recruited, 'for junior and senior positions . . . and should enjoy equal privileges to the Europeans they substitute, and in addition they should qualify for the same salary level'.[109]

One should not exaggerate the differences between the agency houses and the multinationals: while by 1944 15 of Lever Brothers' 57 managers were Indian, there were still no Indian directors; Prakash Tandon, appointed in 1950, was the first. However, multinationals seem to have been more sensitive to the political expediency of accelerating their indianization process. And very soon after independence the need to indianize in earnest for political reasons was accepted by the multinationals, and by 1955 97 of 149 managers were Indian. In that year a director, Andrew Knox, was sent from Britain to investigate relations with Indians, and recommended that British staff be rapidly reduced to

[106] J. Smith and J. R. Ferguson (managers, Burmah-Shell), *Report of the Royal Commission on Labour, 1931*, evidence, v. 111–12.

[107] A. G. Sloan, interview, IOLR, MSS Eur T. 124/2.

[108] T. Gladstone to A. C. Gladstone, 12 Sept. 1942, MSS OG, file 2634.

[109] A. D. Gourley (a director of Unilever [India] Ltd., in 1944), quoted in Fieldhouse, *Unilever Overseas*, 184.

below 40. According to Knox, this would ‘give a sufficiently indianised set-up to satisfy Indian nationalist sentiment as currently expressed’.[110] Following Knox’s visit at the height of economic nationalist feeling in India, both Unilever and Dunlop completely indianized their capital.[111] In 1961 Prakash Tandon was appointed the chairman of Hindustan Lever, presiding over a board of 6 directors, of whom only 2 were British. By that time only 14 of 205 managers were European.[112]

Yet political considerations were not the only issues taken into account. Lever Brothers considered that if the Indian staff were to be committed to the company, Indians would have to be granted good salaries and positions:

> Our task will be to keep our Indian staff loyal to our business in India and ‘concern-minded’. The loyalty will depend basically on our terms and conditions of employment . . . having in mind all the time that there will be growing competition for trained Indians . . . Pensions and the whole aura of security are the key factors in terms of employment of Indians.[113]

The structure of the multinationals made it easier to ensure the loyalty of all staff, Indians and British. Their pyramidal organizational form gave staff opportunities for promotion, unlike the managing agencies, whose less sophisticated but more élitist structure enforced a strict division between partners, potential partners, and others. The multinationals, with their specialized departments, also allowed for promotion based on technical qualifications rather than social background and race, unlike the managing agencies which continued to emphasize the need to recruit ‘generalists’ with the right character and leadership qualities. So, these differences in firm structure, together with the agency houses’ greater commitment to the codes and conventions of colonial society, allowed multinationals to respond more flexibly to indianization. The ethos of the multinationals was certainly very different from that of the agency houses. At Burmah-Shell, which began operating directly in India in 1928, the attitude to factory labour was far less paternalistic than that of the managing agency houses. In evidence to the 1931 Royal Commission on Indian Labour, the Burmah-Shell witnesses stressed that the company never made loans to employees, did not provide company housing, and paid a fixed monthly wage, rather than operating a system of piece rates supervised

[110] A. M. Knox, ‘Report on Indianisation’, Mar. 1955, quoted in Fieldhouse, *Unilever Overseas*, 194 f.

[111] ‘UK Companies in India’, *Financial Times*, 31 Oct. 1956.

[112] Fieldhouse, *Unilever Overseas*, 196.

[113] Ibid. 195.

by an Indian *sardar*.[114] Similarly, they were less concerned to control the lifestyles of senior staff; there were no prohibitions on early marriage and assistants were not expected to spend so much time as their agency counterparts on tour.[115] The multinationals' relative lack of interest in enforcing the traditional social codes of colonial Calcutta ensured that they would be regarded with disdain by the partners and employees of the managing agencies. They were seen as 'suburban' individuals, who were merely concerned to secure a good company pension rather than make their fortune through their own strength of character.[116] Until the 1940s, when they introduced superannuation schemes for their senior staff, the managing agents tended to regard pension schemes as 'vulgar'.[117]

The Company Act of 1956 and the renewed threat of nationalization in the Second Five-Year Plan, published in the same year, led to another wave of disinvestment by British agency houses in the late 1950s.[118] A confidential FBI report on business in India cited this act, higher taxation, and a general demoralization with the mood of economic nationalism now prevailing in India as reasons for a further wave of selling-up.[119] The new Companies Act was certainly the main reason why James Finlay and Co. decided to leave Bombay; as J. C. Burns, the managing director, explained, 'When the managing agency system was abolished in 1956 the firm decided there was no future in Bombay and sold out to a man who had been the firm's cloth selling agent'.[120] Prominent among the Indian buyers of the managing agencies were Marwari businessmen: Kettlewell Bullen was sold to the Poddar group; Octavius Steel and Duncan Brothers to the Goenkas, and Shaw Wallace to the Bangur family. Gillanders had also been approached in the mid-1950s by both Narsing Das Bangur and the Dhanukhas, a Nepali family.[121] By 1962, only 25 of the 61 agency houses which were con-

[114] Evidence of J. Smith and J. R. Ferguson (managers, Burmah-Shell).

[115] One young recruit of Shaw Wallace left to join Burmah Oil in 1928 for this reason. A. Sloan, interview, IOLR, MSS Eur. T. 124/2.

[116] R. Foster, a director of ICI, contrasted the old-fashioned search for fortunes with the corporate employee's interest in securing a good pension. R. Foster, IOLR, MSS Eur. T. 30.

[117] A. G. Sloan, interview, IOLR MSS Eur. T. 124/2.

[118] *The Economic Weekly*, 21 Jan. 1956; Hazari, *The Structure of the Corporate Private Sector*, 224.

[119] G. Tyson and P. Griffiths reported in 1956 that there had been significant disinvestment by older British firms throughout 1955, see 'A Confidentail Report on Indian Conditions', Jan. 1956.

[120] J. C. Burns, IOLR, MSS Eur. R. 168.

[121] B. Elkins to Gladstone, 30 Apr. 1954, MSS OG, file 2637.

trolled by British partners in 1938 were still under British control, while 32 were controlled by Indians and the rest cannot be classified or were inactive.[122]

Some managing agency houses controlled by the British continued to operate in the 1960s with more Indian capital and staff than before, but were severely affected by the 1956 Act. A study by the Reserve Bank of 1,000 public companies discovered that between 1955 and 1957 the number of companies within the managing agency system declined and the average level of fees paid by the managed companies to the agencies fell from 15 per cent to 10 per cent of their profits.[123] The managing agencies which remained were also affected by the nationalization policies of both central and provincial governments in the 1960s.[124] In 1965, for instance, the Joint Steamer Navigation Company, the large cargo carrier which had operated between Calcutta and Assam since the 1850s, was nationalized and in the late 1960s and 1970s a number of British concerns were included when the Indian banking sector was nationalized. The conservative investment strategy pursued by most of the agency houses since independence was partly responsible for their vulnerability to nationalization: many of the sectors chosen for nationalization were those which were not performing well and which would, it was believed, be more successful under national ownership. By the end of the 1960s the managing agencies' freedom of action was highly constrained, as the state regulated their employment practices, their organization, and their fees. By the time the managing agency system was finally abolished in 1970, most British agencies had been taken over by Indians and were very different concerns from those which had operated under the same names fifty years earlier. Even so, some of them survive to this day as successful corporate groups, under Indian management but retaining the names of their British forebears. One side of Connaught Circus, the heart of the busy commercial district of New Delhi, is still dominated by a large sign bearing the name of Gillanders Arbuthnot.

[122] Kidron, *Foreign Investment*, 323. [123] Jones, *Merchants of the Raj*, 409.
[124] M. Lipton and J. Firn, *The Erosion of a Relationship: India and Britain since 1960* (Oxford, 1975), 87–8.

Conclusion

The history of the British managing agency houses in India in the twentieth century is one of increasing failure to adapt to change. Between 1840 and 1890 they were noted for their dynamism and enterprise, but after the First World War they became notorious for their conservatism and rigidity. It was to some extent understandable that they should respond in a defensive way to the political challenges of nationalism in India and to the crisis of the international economy. However, change brought opportunities as well as challenges: some foreign businesses—particularly multinationals—continued to prosper in inter-war India, as did Indian businessmen themselves. New patterns of trade and the development of protection also presented opportunities for European businessmen in the Indian interior which the managing agencies were in a good position to exploit. Political developments had similarly ambiguous implications: Indian business groups were far from committed to an alliance with the Congress party and between the wars Indian businessmen proposed a number of initiatives designed to establish economic and political alliances with their British counterparts. These were supported by the Government of India, which was eager that the managing agencies should participate in its plans for political reform and economic development.

The firms' records themselves suggest that British businessmen chose to ignore these opportunities because they adhered to a particular corporate form, the private partnership firm, which was reinforced by a commitment to the powerful social codes of colonial society. The racial and social exclusivity legitimized by these values became counterproductive at a time when it was necessary to establish relationships with Indians and the state and to modernize the firms using outside technical expertise.

These conclusions have a number of broader implications for our understanding of business and empire. Contrary to the assumptions of many commentators, business may not always have been the most flexible element of the imperial presence. Businessmen often accept that social and political values must be compromised in the interest

of profit; but they may just as often insist that social codes and hierarchies be strictly observed so that they can acquire and preserve their status and authority in the eyes of employees, creditors, and other businessmen. The maintenance of social conventions may also be more important for businessmen who find themselves in an alien environment. In these circumstances businessmen may consider it necessary to compensate for the absence of formal legal certainty by informal personal relations, by confining their dealings to those who conform to social conventions which they understand, and by excluding those who do not. Given the social codes which prevailed in an imperial context, attempts to improve status often involved the maintenance of strict racial hierarchies and exclusivity. Possibly for these reasons, the partners of the managing agency houses became the strictest adherents of racial and social separation and the most assiduous defenders of these values.

However, as has been shown in this study, not all businesses responded to the imperial environment in the same way. In particular, multinational companies seem to have been more willing to collaborate with Indians, both politically and economically, than were the managing agencies. This contrast raises a number of questions about the ways in which the structure and traditions of firms determine their behaviour. Clearly the examination of these issues demands a larger, more comparative study, but this book has suggested some possible explanations. First, multinationals, like the modern state, were gradually adopting more professional and bureaucratic values in recruitment and decision-making, which replaced older conceptions of personal authority. Hence, professional qualifications could supplant social status and race in determining suitability for employment and promotion. Such organizations may therefore have found it easier than did the managing agents to employ Indians who held the requisite qualifications and so to indianize their firms. Secondly, it may be that because multinational enterprise was a relatively late arrival in colonial cities, and was felt by the managing agents to be an *arriviste* with low status, multinational employees felt less commitment to the social hierarchies of colonial cities. Thirdly, the structure of multinationals, unlike that of the managing agencies, perhaps helped them to transcend the problems caused by the underdeveloped Indian institutional and legal infrastructure. Multinationals, with their fully integrated and complex subsidiary and branch networks, were able to ensure that many of their activities remained within the firm, free from the risks of commercial transactions with potentially

unreliable Indian middlemen. Whichever was most important, it is nevertheless clear that there were marked differences between businesses operating within empire, and the differences between their structure, interests, and culture must be taken into account.

The clear differences within European society over attitudes of Europeans to race illustrated in this study also suggest that racial and imperial ideas were not as monolithic and undifferentiated as has often been assumed. Attitudes to race changed over time and were closely related to views on other issues, such as status, merit, 'character', and proper behaviour. Any understanding of business in empire, and of European empires more generally, needs to take account of such nuances and distinctions, and students need to move from high racial theory to the study of racial ideas in specific social contexts.[1]

This study raises questions not only about the way businesses behave, but also about the impact of business on the social, political, and economic stability of empire. Far from being enthusiastic creators of collaborative bonds with indigenous groups, businessmen of a certain kind may have been serious obstacles to such alliances, thus complicating the state's attempts to adjust to change. The visibility of these businesses, their presence in the more advanced sectors of the economy, precisely those areas which nationalists considered to be so important, and their persistent aloofness, led nationalist élites to identify them as one of the chief hindrances to national revival. The behaviour of businessmen therefore contributed to the damaging ambiguity surrounding British intentions and undermined the strategy of limited reformism adopted by the state in the 1920s and 1930s. However conciliatory officials might be, nationalists were always able to cite the inflexibility of business as more typical of the British presence. The behaviour of expatriate business, therefore, was the focus of much nationalist resentment and it clearly had an influence on the character of nationalist rhetoric and possibly even of the nationalist movement itself. Economic nationalism, which had always been an element of nationalist discourse, became an increasingly dominant theme in Congress's critique of British India and came to focus on the agency

[1] Analysis of Indian attitudes to imperial concepts of race, caste, and community have been more sensitive to social context. See, for instance, D. Washbrook, 'Economic Depression and the Making of "Traditional" Society in Colonial India, 1820–1855', *Transactions of the Royal Historical Society* (1993), 237–63; R. Thapar, 'Imagined Religious Communities: Ancient History and the Modern Search for a Hindu Identity', *MAS* 23: 2 (1989), 209–31.

houses in particular. British businessmen's exclusivity and secretiveness seemed to support the view that they were conspiring with the state against the interests of Indian business and economic development, a perception which has remained influential in Indian historiography to this day. The prominence of business interests in the nationalist movement may also have owed something to their inability to establish a closer relationship with British business with whom they shared both political and economic interests. Expatriate business did not only have this effect in India: much Chinese nationalist rhetoric was aimed at the racism and exclusivity of businessmen in the European concessions.[2]

More broadly, these observations suggest that the role of colonial societies and the ideologies which legitimized them must be taken into account when assessing the problems which beset colonial regimes in their search for indigenous collaborators. It has been recognized that the presence of a large minority of white settlers, whose position is fundamentally threatened by indigenous rule, can undermine collaborative strategies, but it also appears that the social structures and ideologies created in the high imperial age could present obstacles to collaboration in parts of empire which lacked substantial settlement. While in the nineteenth century 'orientalist' conceptions of social structure, which posited a hierarchy of races and castes, helped to legitimize both colonial rule and the privileges given to particular indigenous groups, by the inter-war period they were less functional. By assigning essential characteristics to some Indian groups and by insisting that certain indigenous collaborators possessed inherently superior qualities, these ideologies, if strongly adhered to by colonial élites, could become counterproductive, complicating later attempts to forge alliances with those groups who had originally been assigned low status within these hierarchies. This may help to explain why it proved particularly difficult to establish relationships with the more dynamic business communities, such as the Marwaris.

Historians are becoming more interested in colonial societies on the periphery, but much work remains to be done on their nature and on their relations with indigenous society. The approaches of legal, economic, cultural, and intellectual historians can be particularly fruitful

[2] For the influence of European business on Chinese nationalist rhetoric, see R. Murphy, 'The Treaty Ports and China's Modernization', in M. Elvin and J. Skinner, *The Chinese City between Two Worlds* (Cambridge, Mass., 1974), 17–73.

in helping us to understand the complexity of the imperial encounter, and a deeper understanding of issues raised by such research can afford us greater insights into the creation, consolidation, and dissolution of the European empires.

Tables

TABLE 1. *Managerial Integration in Indian Industries, 1911*

Managing Agent	Total number of companies managed	Jute	Tea	Coal	Cotton	Transport	Miscelleneous
Andrew Yule	32	5	8	12	—	2	5
Bird	20	8	—	12	—	—	—
Shaw Wallace	16	—	1	12	1	—	1
Duncan	13	—	13	—	—	—	—
Begg, Dunlop	12	2	10	—	—	—	—
Martin	11	—	—	4	—	6	1
F. H. Heilger	11	2	—	7	—	—	2
McLeod	11	3	2	5	—	1	—
Octavius Steel	11	—	9	1	—	1	—
Williamson Magor	11	—	10	1	—	—	—
Jardine Skinner	10	2	5	2	—	—	1
Kilburn	10	—	6	2	—	1	1
Killick Nixon	8	—	—	—	1	7	—
Kettlewell Bullen	7	2	1	—	4	—	—
Tata	6	—	—	—	4	—	2

Source: M. M. Mehta, *Structure of Indian Industries* (2nd edn., Bombay, 1961), 317.

TABLE 2. *Index of Industrial Profits in India, 1928–1941*

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941
Cotton	100	99.1	37.9	52.5	82.8	33.9	90.1	89	98.8	138.2	154.6	220.1	489.1	760.7
Jute	100	86.5	37.9	8.7	12.6	19.8	34.4	39.8	25.9	11.1	13.6	48.8	46.8	49.2
Tea	100	59.8	14.9	−19.8	−1.1	93.9	50.2	63.5	70.8	108.4	96.2	95.4	141.3	219.5
Coal	100	98.4	122.1	91.2	75	60.3	59.7	63.8	62.5	71.8	139.1	140.2	114.9	110.3
Sugar	100	79.6	93.6	144.5	253.9	254.2	194.2	157.7	247	122.3	179.4	180	247.3	219.8
Iron & Steel	100	18.6	70.6	78	66.2	90.3	169.2	192.9	179	211.6	289.3	300.7	387.3	403.3
Paper	100	93.2	92.3	86.6	92.4	110.8	108.1	136.4	157.4	182.8	151.8	358.7	432.2	488.4
All	100	78	47.1	27.8	34.6	44.2	62.6	69.6	63.1	61.1	72.4	99.9	135.4	169.4

Source: Office of the Economic Adviser, Government of India, *Recent Social and Economic Trends in India*, prepared by S. Subramanian and P. W. F. Homfray, Delhi, 1946, table xvii

TABLE 3A. *Growth of Business Houses in India 1914–1947 (Calcutta)*
(Paid-up rupee capital in Rs 000)

Company	1914	1922	1937	1947
European				
McLeod	9,275	26,500	20,348	22,498
Martin (Anglo-Bengali partnership)	16,685	29,984	31,298	32,215
Burn	4,900	35,262	34,887	35,467
Gillanders,* Arbuthnot	10,740	60,854	49,731	22,100
Hoare Miller	3,824	5,965	3,690	3,690
Yule	24,105	53,082	64,763	59,203
Shaw Wallace	8,034	8,598	10,559	10,369
Bird	28,524	43,334	38,881	40,121
Heilgers	10,595	14,435	13,603	17,606
Macneill	5,949	14,779	19,467	19,462
Balmer Lawrie†	3,370	7,501	6,937	5,707
Octavius Steel	3,512	5,110	14,609	14,513
Jardine Skinner	11,074	15,218	23,458	11,650
George Henderson	800	4,000	4,200	4,600
Jardine Henderson†	—	—	—	8,900
Mackinnon Mackenzie	NA	14,851	11,180	11,996
Duncan	13,058	14,408	18,218	20,488
Begg, Dunlop	4,809	22,005	12,835	11,697
Indian				
Karamchand Thapur	—	—	NA	7,418
Juggilal Kalimpat	—	—	NA	8,900
Bangur	—	—	—	4,500
Birla	—	6,523	17,897	218,504
Surajmul Nagarmul	—	—	—	3,250
N. C. Sircar	3,133	3,418	—	—
Janoki Nath Roy	—	—	3,316	8,000
Ramkumar Agarwala	—	—	—	10,000
Adamjee Hajee Dawood	—	—	4,500	4,500

* The decline in Gillanders's fortunes over the period can partly be explained by losses due to fraud in 1929–30.

† The small amount of rupee equity displayed here is misleading, as both companies were primarily sterling-based and incorporated in London.

Source: *Indian Investor's Year Books.*

TABLE 3B. *Growth of Business Houses In India 1914–1947 (Bombay)*
(Paid-up rupee capital in Rs 000)

Company	1914	1922	1937	1947
European				
Killick Nixon	37,808	68,900	3,025	7,424
Turner Morrison (Bombay)	2,175	1,600	863	1,671
Turner Morrison (Calcutta)	—	1,500	—	2,000
James Finlay* (Bombay)	3,000	1,000	NA	NA
James Finlay (Calcutta)*	100	6,525	7,166	10,065
David J. Sassoon	4,550	8,250	—	—
E. D. Sassoon	2,700	61,700	—	—
Greaves Cotton	5,031	—	—	—
Indian				
Tata Hydro-Electric	—	NA	NA	96,697
Tata Sons	37,089	266,013	104,594	140,748
Morarjee Goculdas	1,950	1,950	NA	NA
Walchand	—	3,888	4,881	60,006
Scindia Steam Navigation	—	45,000	NA	60,000
Mixed				
Associated Cement Companies	—	—	70,542	79,279

* The small amount of rupee equity displayed here is misleading, as both companies were primarily sterling-based and incorporated in London.

TABLE 4. *Percentage Shareholdings of Managing Agency Partnerships in Coal and Jute Companies Managed*

Managing agents	Number of jute mills managed	% of equity held in each	Number of coal mines controlled	% of equity held in each concern
Andrew Yule	8	29, 24, 14, 30, 43, 21, 26, 7	15	43, 30, 31, 27, 25, 22, 55, 26, 46, 38, 34, 40, 30, 51
Begg, Dunlop	4	35, 30, 10, 13		
Bird	7	23, 16, 13, 15, 17, 15, 16		
Kettlewell Bullen	2	15, 38		
Jardine Skinner	4	6, 21, 13, 47, 15, 38		
Mackinnon, Mackenzie	2	15, 38		
McLeod	4	9, 18, 1, 72		
Barry	2	18, 47		
Heilgers			7	44, 31, 68, 57, 44, 25, 28
Martin			7	19, 22, 31, 79, 18, 73, 74
Shaw Wallace			6	3, 47, 34, 24, 56, 42
H. V. Low			5	68, 17, 33, 28, 26
McNeill			7	27, 99, 30, 56, 81, 38, 65

TABLE 5. *British Subsidiary Companies in India, 1975, with Assets of over Rs 100 million*

Subsidiary	Parent company	Assets (Rs million)	% Ownership by parent	Date of establishment
Alkali and Chemical Corporation	ICI	248.6	57	1937
Asbestos Cement	Turner Newall	102.8	76	1934
Ashok Leyland	British Leyland	210.1	60	1948
Britannia Biscuits	Associated Biscuits	127.9	53	1918
Brooke Bond (India)	Brooke Bond	419.4	75	1912
Chemical and Fibres	ICI	201.1	55	1961
Chloride (India)	Chloride	129.7	59	1947
Dunlop (India)	Dunlop	754.9	51	1916
GEC (India)	GEC	392.3	58	1911
Glaxo (India)	Glaxo	296.9	75	1924
Godfrey Philips (India)	Godfrey Philips	116.8	81	1951
Guest, Keen, Williams	GKN	546.3	59	1931
Hindustan Lever	Unilever	791.7	85	1933
Indian Explosives	ICI	656.5	47	1953
Indian Oxygen	BOC	246.0	66	1935
Lucas-TVS	Lucas	143.1	60	1961
Metal Box (India)	Metal Box	369.4	60	1933
Parry	EID-Parry	113.8	100	1928
Tinplate Co. (India)	Burman Oil Co.	120.5	67	1920
Tribeni Tissues	Myddleton Investments	119.5	74	1946
Tube Investments (India)	TI	199.1	52	1949

Source: Government of India, Department of Company Affairs, *Directory of Joint Stock Companies in India*, 1975.

TABLE 6. *Distribution of Directorships in British Managing Agency Firms, 1911 and 1951*

Firm	1911 Indian	1911 British	1911 Total	1951 Indian	1951 British	1951 Total
Yule	2	62	64	80	55	135
Martin	11	37	48	73	85	158
Bird	—	46	46	25	64	89
McLeod	3	22	25	37	36	73
Shaw Wallace	1	50	51	20	22	42
Octavius Steel	—	25	25	27	19	46
Heilger	—	34	34	10	27	37
Gillanders Arbuthnot	—	8	8	12	22	34
Macneills	—	22	22	7	42	49
Kettlewell Bullen	—	18	18	4	9	13
Kilburn	—	11	11	4	16	20
Anderson Wright	—	8	8	11	11	22
Balmer Lawrie		22	22	6	17	23

Source: M. M. Mehta, *Structure of Indian Industries* (2nd edn., Bombay, 1961), 354.

TABLE 7. *British Managing Agencies, 1938–1962*

British in 1938 and probably still British-controlled in 1962

Andrew Yule
Balmer Lawrie
Barry
Binngy
Bird
Bombay Burmah Trading Corporation
Duncan Bros.
Gillanders Arbuthnot
Gladstone Lyall
Gladstone Wylie
Harrison & Crosfield
Heilgers
James Finlay
Kilburn
Mackinnon Mackenzie
Macneill & Co.
Macneill & Barry
Parry & Co.
Planters Stores
Ralli Bros.
Shaw Wallace
Steel Bros.
Turner Morrison
Williamson Magor
Lyall Marshall

British in 1938 and probably Indian-controlled in 1962

Anderson Wright
Angus Co.
Begg Dunlop
Begg Sutherland
Best
British India Corporation
Burn
Davenport
David Sassoon & Co.
E. D. Sassoon
Forbes, Forbes, Campbell
George Henderson
Grahams Trading (India) Ltd.
Greaves Cotton

TABLE 7. *Continued*

Hoare Miller
Howeson Bros.
H. V. Low
Jardine Henderson
Jardine Skinner
Kettlewell Bullen
Killick
Martin
Martin Burn
McLeod
Octavius Steel
Sassoon J. David
Spencer
T. Stanes
Thomas Duff
Villiers
W. H. Brady
Volkart Bros.
British in 1938 and inactive, unknown, or unclassifiable in 1962
Eliot
Henry F. Eliot
Pierce Leslie
James Scott

Source: M. Kidron, *Foreign Investments in India* (Oxford, 1965), 323.

Table 8. *Gross Profits, in Rupees, of Gillanders Arbuthnot and Company in Calcutta, by Department*

Department	1924–1925	1928–1929	1929–1930	1930–1931	1931–1932	1932–1933	1933–1934	1934–1935	1935–1936	1936–1937	1937–1938
Banking	58,790.4.7	34,443.10.5	36,599.15.4	38,856.0.3	38,879.15.9	40,304.8.0	36,234.12.3	37,895.15.11	35,270.7.8	52,446.6.1	76,194.1.4
Miscellaneous agency	116,189.7.3	—	—	—	—	101,689.13.11	110,981.6.11	153,444.10.10	154,912.2.2	169,530.8.11	163,868.15.1
Engineering agency	—	55,422.5.5	79,974.9.11	85,068.13.10	69,626.7.9	—	—	—	—	—	—
Government and other agencies	—	66,631.7.9	44,580.13.8	33,368.13.0	28,045.2.8	—	—	—	—	—	—
Railways	101,646.6.9	150,285.13.4	135,068.4.4	123,401.12.7	121,005.11.5	116,952.11.10	119,117.11.3	125,212.3.10	121,143.5.9	116,003.8.4	114,044.9.6
Insurance	259,206.15.8	286,064.14.4	283,883.3.0	252,848.15.3	238,643.3.5	221,462.2.10	208,718.9.0	225,281.8.3	227,302.15.10	238,582.6.11	251,327.4.7
Cement	—	77,780.10.11	60,736.2.7	65,152.6.0	29,390.5.0	32,251.7.10	54,042.14.2	72,312.4.9	80,453.9.7	88,891.14.10	92,161.8.8
Steel products and belting	—	38,042.3.1	19,839.1.9	10,002.3.7	7,190.1.7	5,645.5.1	5,324.2.9	6,610.1.4	8,781.15.0	10,268.9.8	8,265.4.6
Cellulose	—	31,743.7.2	71,592.7.4	80,308.15.2	82,433.13.5	94,282.4.6	101,559.3.2	101,761.2.11	94,073.11.1	105,947.0.4	131,733.2.5
Oil	—	33,381.8.0	16,934.1.7	16,114.7.6	5,969.0.3	7,348.10.6	9,176.15.5	7,942.2.11	6,545.3.6	8,470.14.9	6,427.5.10
Explosives	—	71,419.8.6	75,355.7.5	83,338.5.6	55,480.11.0	35,444.11.6	39,391.13.0	49,633.12.3	49,492.6.6	50,530.15.6	81,041.14.3
Tea and wood products	72,066.15.9	92,070.12.8	82,995.15.8	73,948.5.3	90,861.9.5	89,464.8.10	104,188.3.10	104,123.7.1	102,511.1.0	121,579.5.11	181,744.10.10
Coal	147,304.12.0	94,742.14.2	93,816.13.11	87,855.9.11	97,261.11.3	81,341.4.2	63,336.8.5	63,516.5.2	59,613.10.8	49,661.4.1	53,471.6.10
Jute mills	267,263.10.5	260,279.8.7	232,193.7.6	174,220.13.11	112,464.5.4	120,527.0.4	136,071.4.7	136,039.12.3	130,161.2.9	145,093.15.0	163,455.9.9
Exports	140,092.12.1	1,006,887.4.9	87,291.6.1	15,094.13.5	−4,161.7.4	—	—	—	—	—	—
Timber	303,216.14.4	161,912.8.8	174,235.12.8	90,288.13.9	41,695.14.0	36,649.13.6	55,013.9.4	69,155.10.2	65,568.14.0	85,561.15.2	136,040.13.0
Piece-goods	81,209.12.2	20,246.12.5	23,931.4.11	6,208.12.7	2,427.8.8	—	—	—	—	—	—
Miscellaneous imports	95,573.4.11	—	—	—							
Forestry	—	27,107.6.9	34,128.11.1	29,577.0.2	63,165.13.5	26,079.0.6	26,514.15.11	22,631.0.3	50,995.14.6	45,399.13.0	37,921.15.0
Tyres	—	—	—	—	−1,373.3.11	—	—	—	—	—	—
Copper	—	—	—	—	—	—	—	—	—	—	105,740.13.4
Shipping	—	—	—	—	—	—	—	—	—	—	27,186.8.3

Note: Gillanders's main industrial interests included jute mills, coal, and copper. Its selling agencies included tyres, explosives, oil, steel products and belting, cement, and insurance (although Gillanders also owned its own insurance company). Its most important agencies, in addition to the industrial agencies, included two railway companies, an engineering company, various tea gardens, and timber and forestry plantations.

TABLE 9A. *Distribution of Commercial and Industrial Seats as determined by the Franchise Committee of 1919*

Legislative Council	Planting	Mining	European Chamber of Commerce	Indian Chamber and Mill Owners	General Trade Association	Special Trade Association	Indian Legislative Assembly European	Indian Legislative Assembly Indian
Bombay	—	—	3	3	1	1	1	2
Madras	1	—	2	2	1	—	1	1
United Provinces	—	1	4	1	2	7	2	1
Punjab	—	—	2	1	—	—	1	—
Bihar/ Orissa	1	2	—	—	1	—	—	—
Central Provices	5	—	—	—	—	1	1	—
Assam	5	—	—	—	—	1	1	—

Source: S. Bhattacharya: 'The Colonial State and the "Interests": A Note on the Representation of Capital and Labour', in D. Tripathi, *State and Business in India: A Historical Perspective* (Ahmedabad, 1987), 263

TABLE 9B. *Distribution of Commercial, Industrial, and Labour Seats in 1932*

	Madras	Bombay	Bengal	United Provinces	Punjab	Bihar/ Orissa	Central Provinces	Assam
Labour	—	3	2	—	1	1	1	1
European Capital	4	4	9	2	1	2	2	5
Indian Capital	2	4	6	1	1	2	1	1

Source: Ibid. 269.

TABLE 10. *Total British Long-term Private Business Investment in India, excluding Banking and Insurance, 1921–1948*

Sector	1921	1938	1948
Plantations	20.27	45.54	40.0
Utilities and Transport	14.27	28.70	25.3
Mining	20.42	29.61	9.2
Manufacturing	25.21*	25.06	56.9
Miscellaneous	37.87	43.14	14.2
Oil	10.90	24.44	17.9
Financial	—	—	5.5

* Jute, Cotton, Sugar, and Engineering only.

Sources: A. K. Bagchi, *India's Balance of Payments 1921–22 to 1938–39* (London, 1963), 71 and 75; *Reserve Bank of India Bulletin*, October 1962, 1542.

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